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**ECONOMIC ROADS FOR AMERICAN
DEMOCRACY**

S P O N S O R E D B Y

THE CONSUMER EDUCATION STUDY

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NATIONAL ASSOCIATION OF
SECONDARY-SCHOOL PRINCIPALS

A DEPARTMENT OF
The National Education Association

Economic Roads for American Democracy

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ECONOMIC ROADS FOR AMERICAN DEMOCRACY

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*The quality of the materials used in the manufacture of
this book is governed by continued postwar shortages.*

PREFACE

ECONOMIC ROADS FOR AMERICAN DEMOCRACY is intended to make our future citizens more intelligent about one of the great problems that we face—how to choose among the major lines of political-economic policy which we are to-day urged to follow. Analysis shows five basic schools of thought now competing for our favor. Books, magazines, the radio, and the orator are urging, seldom completely or fairly, the advantages of each. The issues are genuine and current, the problems pressing. And the youth will either exercise his opportunity and responsibility to help decide what shall be done or decisions that affect his future prosperity and happiness will be made for him.

Yet he cannot cast his vote wisely or use well his influence as a citizen unless he understands what the economic roads are which lie before him, and whither each leads. Therefore this book presents clear expositions of what five different groups of Americans want our economy to be.

For the sake of interest, as well as for the sake of a clear, forceful introduction, each of the five economic theories now competing for popular favor is presented first in the vernacular and in its bare outlines, as a group of soldiers in bivouac discuss what they want after they get home. Then it is presented in more detail and in scholarly, though simple, terms, with supporting quotations from the writings of specialists. Thus the student gets an easy introduction in terms to which he is accustomed, followed by a careful study.

Preface

The exposition of each theory has been read critically by two or more of its outstanding proponents and revised in the light of their criticisms. These men cooperated generously under assurance that their names would not be used, an assurance made necessary by the fact that as the critics did not always agree in every detail, the author had in some instances to use his own judgment in the presentation of minor details. However, it can be asserted with assurance that in all major matters each section is an accurate and fairly full presentation of what the leading advocates of the theory favor.

Readers should particularly note that the author and the Consumer Education Study attempt neither to advocate nor to discredit any of the competing theories. They merely explain what each is and try to bring out the important differences among them. Then they leave to the individual reader the responsibility of deciding which he approves and will work to make practically effective.

Intelligence about the economics of our country is obviously of critical importance in the general education of every citizen. It is easy to find a place for such a treatment as this one in a school which has a "fused curriculum." In more conventional schools it can constitute a unit in any of the social studies—history, economics, government, problems of democracy, etc. Though the topic is unusual, the administrator or teacher who has at heart the welfare of our country will be able to find a place for it by the condensation or elimination of topics of less assured, though more conventional, importance.

This book was prepared for the Consumer Education Study by William Van Til. He was helped in planning, writing, and progressively improving it by his colleagues in the Study, as

well as by various specialists in economics and government. The illustrations were drawn by Milli Knauer Wignall.

The Consumer Education Study, initiated in 1942, is sponsored by the National Association of Secondary-school Principals, a Department of the National Education Association. It is financed by funds from the National Better Business Bureau, which has also furnished generous help in facilitating contacts with experts in various pertinent fields but has in no way influenced, or attempted to influence, the conclusions of the Study.

THOMAS H. BRIGGS
DIRECTOR

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ECONOMIC ROADS FOR AMERICAN DEMOCRACY



WHICH WAY TO THE AMERICAN DREAM?

Chapter 1

THE PRODUCTION MIRACLE

ONCE upon a time there was an inquisitive economist who dwelt on the planet Mars. Finding time hanging heavy on his hands, he boarded his jet-propelled rocket ship and swooped down to the planet Earth for a look-around. He landed on the Big Nation, which stretched from sea to shining sea. Earth people called the year 1933.

The faces he saw looked glum. For four years jobs had been scarce in the Big Nation. Wages were low; banks were failing; and business was bad. People with moderate incomes were cutting down on smart clothes, vacations, trips, washing machines, permanents, and dental appointments. Even the rich were dismissing some servants, closing wings of their houses, and wondering if they could find purchasers for the launch and the town car. The poor, who had never bought much beyond food, clothing,



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and shelter, were buying even less, and some of them were going hungry. Often, they couldn't keep up their dollar-down, fifty-cents-a-week payments on installment purchases. Many were moving into older, cheaper houses. They patched Willie's pants, made over Mary's dresses, and redarned Pop's socks. As the nation slid deeper into what had been named the "depression," more and more upper-income people became middle-income people, and more and more middle-income people became low-income people.

"The Big Nation must have worn out its soil and used up its coal and iron and oil," thought the economist. "Either that, or the people must be lazy, uninventive, and stupid. The Big Nation must have poor material resources or poor human resources. For what else does a civilization need to be prosperous? What else could cause a whole nation to grow poorer?"

Interested as a scientist with a new bug under his microscope, the economist disguised himself as an earthman and went on a tour to study economic conditions. People didn't pay much attention to his odd appearance, for they were fearfully watching for another traveler called "Poverty." The man from Mars met Poverty frequently in the bread lines of great cities. He found him in boxcars in which homeless youth rode aimlessly from one hopeless town to another. He met Poverty in share-croppers' huts, in water-front shacks along rivers and bays, in unheated homes where jobless men worried about how to pay the family's milk bill. Poverty traveled fast; he seemed to be everywhere at once.

Yet the natural wealth of this stricken land was amazing. The Martian visitor saw hills of oranges rotting in the sun, bushels of ear corn being burned in stoves, truck loads of

The Production Miracle

milk being dumped into rivers. The land was fertile, though whole counties wasted away in dust storm and flood.

Untapped wealths of ores and minerals lay deep in the earth. But many mines were deserted caves, and few whistles called miners to their picks. Raw materials and machines were ready, but many a steel mill stood silent and idle.



Cotton and wool and leather were piled in warehouses, unused. Spiders spun webs in textile mills and in factories that were empty shells. All the facilities of trade and commerce stood ready, but skyscraping office buildings were half rented and ships lay rusting at the docks.

Worst of all, the economist saw men—good workers—rusting too; men who sat unhappily at home waiting for another chance to plant crops, build homes and factories, and work the machines.

About two-thirds of American families had less than \$1,500 a year to spend; 42 per cent of them less than \$1,000; and 14 per cent less than \$500. Yet the Martian read in the papers that economists of the Brookings Institution and of the National Survey of Potential Product Capacity said each family

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in the Big Nation could have a standard of living of \$2,500 to \$5,000 a year if land and equipment were fully used.

No, the Big Nation wasn't lacking in natural resources—not while it had roughly 64 per cent of Earth's known oil, 37 per cent of its coal, 40 per cent of its pig iron, 56 per cent of its cotton, and 32 per cent of its developed horsepower. Nor was it lacking in industrial plants, for it had the best in the world.

"Big Nation has the material resources for a great and prosperous civilization," said the man from Mars. "The fault, then, must be in the people. Perhaps they are shiftless, un-inventive, ignorant of technology, afraid of trying something new."

Yet as he watched them and heard them talk and looked at their creations, they seemed a highly enterprising, inventive, technically skilled people. In barely three centuries they had made a wilderness into a complex, industrial civilization. That had been no job for fools or weaklings. They had bound the nation together with iron rails; from 1836 to 1933 they had taken out 2,051,824 patents on inventions, including harvesters, movies, telephones, airplanes, plastics, and automobiles. They had learned to farm so well that they claimed that one state, intensively cultivated, could feed the rest of the nation. In manufacturing they were making improvements so fast that the work done by 100 men in 1920 could be done by 55 in 1934. Brilliant research men tested and retested ideas in their laboratories; universities trained men to technical skills in many fields.

There was no doubt about it; the people of the Big Nation had the technical "know-how." And they had a long history of courage and restless energy. Big Nation wasn't lacking in human resources.

Puzzled, the man from Mars stepped into his rocket ship and sped back to his home. If he had been a writer, he might have written a book about this curious planet. Since he was an economist, he constructed accurate graphs, based on the best data he had found. But for all his graphs, he couldn't explain to the Martians why a land with plenty of vigor and brains and man power and machines and material resources was haunted by the specter of Poverty.

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Ten years ticked away in the solar system and the economist from Mars, still curious, decided to revisit the Earth to see what new troubles its residents were creating for themselves. But as he zoomed over the Big Nation, his rocket ship was rudely shot down by an alert antiaircraft battery. For the time was late 1943. After a brief examination by the Federal Bureau of Investigation, the man from Mars became a distinguished guest of the Big Nation.

To his hosts the Martian economist said sympathetically, "How poor your people must be now! For now in Earth's greatest war your men and materials must be used against the aggressors. Since your people were already in distress in 1933, when you were at peace, how impoverished they must be today in 1943, when you are at war! So much of your man power and machines must be used for destruction that little can be left for milk and meat, slacks and slippers, toasters and tables, and other needs of your population."

His hosts smiled.

"What percentage of your working people are making and using your weapons of death?" continued the man from Mars (for you must remember he was an economist and this is the kind of question economists enjoy asking). "And what per-

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centage of your production goes to your fighters and their Allies?"

"Ten million, at least, of our young men and women are in the armed forces; some 12 million more are in munitions factories and war agencies; and the work of many millions more—farmers, steel workers, and railroad men, for example—goes for war purposes," said his hosts; "46 per cent of our total national output is for war goods and services."

The man from Mars shook his head sadly. "So only about half of all of your production goes to the suffering civilians. How starved they must be! What rags they must wear! How your slums must have grown!"

"What makes you think so?" his hosts asked.

"Common sense," said the man from Mars. "Simple mathematics. Already in 1933, one-third of your people were ill-fed, ill-clothed, and ill-housed. Yet your farmers and your builders and your garment workers and all the other workers were at your beck and call. Your fighters were few, fewer than a quarter million men; your defense expenditures were small. And now in 1943 you have millions of your best workers in the armed forces, while millions more produce guns and tanks and planes and food and other essentials for the fighters, not for the use of your civilians. Only about half of your goods and services can go to feed and clothe and house and doctor and entertain and educate the 125 million who stay at home. So there must be indescribable misery."

"On the contrary," said his hosts, smiling a little smugly, "the people of the Big Nation are prosperous. Their health is good. They never have been so well fed. Never before have they had so much money jingling in their pockets. They

The Production Miracle

have paid off many debts and billions in savings crowd the banks, a new high. The national income is astronomical."

So they showed him the factories running full blast and the land flowering with record crops. They showed him the ships carrying guns and butter to the world. They showed him the trains and busses packed with travelers and freight. They showed him the farmers paying off their old mortgages.



They showed him department stores thronged with free-spending customers. They showed him war-center housing developments which seemed to have sprung up overnight in cow pastures. They showed him long lines of waiting people. From his 1933 experience he thought he knew what the lines meant, but they proved to be people waiting to get into overcrowded movie theaters and fashionable restaurants.

He watched people leaving grocery stores with bulging sacks and heavy cartons. Despite rationing, food consumption had increased markedly. When he asked some shoppers whether they suffered from shortages they told him, yes, indeed, their privation was terrific, for instead of three or four cups they were allowed only a daily cup of coffee. To add to their misery those who lived in the East were allowed only

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gas enough to drive the microscopic distance of 30 miles a week in their cars.

Back in the capital of the Big Nation, after traveling from sea to shining sea, he was informed that the Big Nation in 1943 was producing two weapons for every one produced by all its enemies combined. (Yet the enemies had long prepared for war and the Big Nation was taken unaware.) The nation he toured was spending over 75 billions for war in 1943 as compared with less than three-quarters of a billion for war preparation in 1933! Yet, while the people of the Big Nation carried this tremendous new load of work, they also produced more food and clothing and shelter and entertainment than they had in the peaceful year of the Martian's first visit.

The man from Mars was humble and amazed. "It is a miracle," he said solemnly.

"Yes," agreed his hosts; "it is a miracle of production."

Back to Mars in his repaired space ship went the puzzled economist, with his brief case full of statistics on the economy of the Big Nation in wartime. At home in his office, he unearthed his 1933 graphs. As he placed the new data beside the old, his jaw dropped ever lower. For no matter how he calculated, his figures showed that in spite of the war, citizens of the Big Nation ate better, had more jobs and more income, and produced three or four times as much in 1943 as they had in 1933.

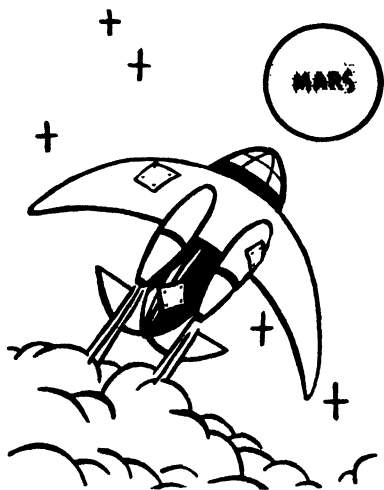
No wonder the traveling economist said, in concluding his address before the Martian Economic Association: "What kind of economy is this? On my first visit, when all its men and resources were available, its gross national product, figured in 1940 prices, was only 59.7 billion dollars' worth. On my second visit when 10 million of its youngest and

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strongest men were producing nothing and consuming more than half of the output in destruction, the gross national product of Big Nation calculated in terms of the same prices was 152.1 billion dollars' worth.

"Ten years ago these curious people apparently thought they had too many workers, too many factories, and too much farm production, for they left some of each idle.

"But on my second visit they were not only using all of their available equipment but they had hurriedly built many more factories. With all their farms working at full speed, they still urged city dwellers to grow food in every vacant lot. They not only put to work all the people they formerly called the unemployed, but they even hired grandmothers and high-school young ones in their factories and stores and on their farms."



"What do the people on Earth want their economic system to do for them?" asked a questioner.

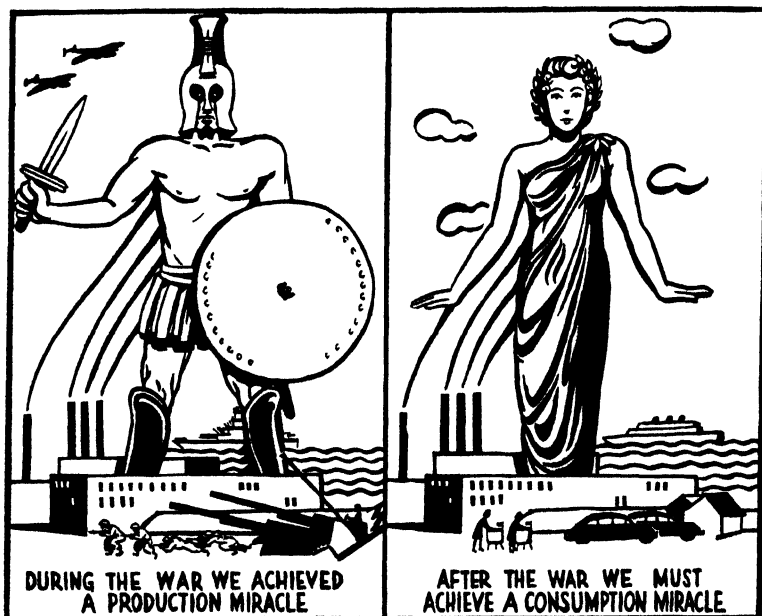
"Give them full employment, increase their production, give them all a high standard of living. At least, that is what their books say," added the Martian economist.

"If they want increasing production and full employment," put in a listener, "maybe they should always do whatever it is they are doing now."

"What they do now," said the traveling economist, "is to

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use their magnificent equipment to build war materials. They elaborately fabricate shells and planes and tanks and ships. These war weapons wreak vast destruction before being destroyed or being used up. Everyone works like a beaver on



the business of war. No one is idle. They go, as they say, 'all out.' This is the way they now get increased production, full employment, and a somewhat higher standard of living than they enjoyed on my first visit."

"If you'll permit me to say so," said a past president of the Martian Economic Association, "this killing business would be a stupid way to run things permanently."

"They might as well produce fully and dump half their production into the ocean," added another member.

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One Martian stood up and said, "Let me see if I understand you. The natives have material resources and what they call 'know-how.' The people could produce a good standard of living for everybody in the Big Nation. They could produce abundance in their land. And the people need and want what they can produce. Is that right?"

"Yes," said the traveler.

"Then why can't they use the farms and factories and men that in wartime can produce so much war and civilian materials to produce peacetime goods in peacetime?"

"Because they haven't worked out ways to get their products to themselves as consumers," said the lecturing economist. Then he tried to sum up all he had learned in two sentences. He said, "They have created a production miracle in wartime. What the Big Nation needs now is a consumption miracle in peacetime."

Chapter 2

YOU AND THE MIRACLE

YOU'VE met the astonished economist from Mars. He's a myth, of course. But all his facts and figures and observations about the Big Nation (the U.S.A. to you) are reliable actuality, based on the best available statistics, and not a whit exaggerated.

But let's think about you for a while. Here you are in your school, reading your books, talking to your friends between classes, going to games, belonging to clubs, living and learning, and trying to have a good time while you're about it.

You help around home or you hold a job, or maybe you do both. You labor at your homework most week nights, and over the week end you go to the movies with a date, if the opportunity comes along. You think about hobbies and your career and clothes and the latest gossip and next Friday's basketball game. So why should you—just an ordinary person trying to get along—bother your head about all these matters of production and employment and conditions of living and distribution of income? What do they have to do with you? What difference does it make to you if we produced only 59.7 billion dollars' worth of goods in 1933, when you were one of the small fry, and 152.1 billion dollars' worth in 1943, the year Sinatra made swooning fashionable? What does it matter to you whether we have full employment or

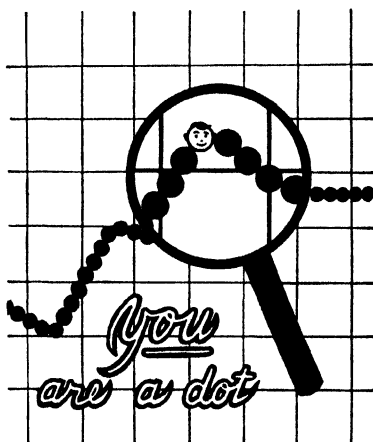
10 million unemployed? What do economists' graphs matter?

The graphs don't matter at all; they're just marks on paper—just numbers and lines. Numbers and lines on paper can't suffer or hunger or live in poverty.

What does matter is the people behind the graphs, the people the numbers and lines represent. What does matter is whether the people are out of jobs or living at a decent level, enjoying life or obsessed with financial worries.

And you are one of those people.

Your family has been affected by those lines and numbers. Your life has been affected too. Five years, 10 years, 30 years from now *you* are still going to be one of the tiny dots that form the lines and numbers of



graphs. And whether those lines and numbers run high or low is going to spell a big difference throughout the only life you'll ever live. They may mean the difference between a job and a home and the fun you *want*, or unemployment and the shack and the alley loafing you may have to *take*.

There are certain things you want to get out of life right now, this very year. Maybe you want places to go, things to do. Maybe you want good food and plenty of it. Maybe you want a room at home which you can show proudly to your friends. Are these wishes (and a host of others) more or less likely to come true if America produces enough, if

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there is steady employment for your family wage earners, if Americans have enough income to buy the products of the great technology they have built?

Aside from these earthy things, there are probably other things you want. You probably want to become liberally

educated and to get specialized training for your future work. You probably want freedom, however you define the word. You probably want to use your initiative to get from life what you want. You probably wish others luck as they live their lives. There are other things, not material, which you want today and in the days to come. Are any of these matters related to our economic organization, to whether we have a prosperous or a depressed society?



What do you want from

a long-range point of view? A job that gives you a steady income? Laborsaving devices to get domestic work done swiftly and efficiently? A chance to travel and see the world? A house to relax and entertain in? A family? Civilized appreciation of the arts? An annual vacation? What else? Are these things connected with how high or how low the lines and the numbers go on our economic graphs?

If the lines and numbers spell depression, your days may be frittered away in searches for work, worries about money,

endless struggles to make both ends meet. Depression may mean that you'll have to put off marrying and building your own home for years while you search for economic security.

But if the lines and numbers on the graphs go high, you'll be freer to choose whether to marry early. You'll have more say about what jobs you take. You'll have your life made free from drudgery by electric irons, vacuum cleaners, washing machines, electric ranges, refrigerators. The promised world of tomorrow, with its dust filters, dish-washing machines, distributed heating, and solar lighting will be easier for you to reach. Maybe you don't want material things. But you want *something* from life.

Many people don't know where they are going. But they are on their way. If you want to know where you are going, right now is a good time to think out what you want for yourself out of life. What do you want for others? What do you want American life to be like? Think it out, set it down, and talk it out in class. See if your class is in general agreement on what you want out of life. You might even consider what a democratic-minded person wants for himself and others.

What do the graphs mean to you? Why, they represent no one else but you and you and you—your jobs, your income, the goods available to you, the way you'll live.

Yes, it does make a difference to you whether we are able to match our production miracle with a consumption miracle; whether people are going to be able to get and use the things they can make.

"To get and use the things they can make." It sounds easy, doesn't it? If we can *make* shoes and radios and cars, we ought to be able to *get* and *use* them. But it isn't easy. We know that from experience.

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If it were easy, we'd have achieved it before now. Before the global war the nearest we came to using our technical power fully was in 1929, the peak year of the prosperity of the twenties. But even in that year of the golden glow, our production ability had outrun our consuming. One out of every five of our buildings, farms, and machines was not utilized. Sixteen billion dollars more of goods could have been produced, using the industrial practices of the day and not working double or triple shifts. That 16 billion dollars' worth of goods in the hands of our poorer families would have provided all American families with at least a \$2,500 standard of living. Too high a figure? You'll find this information in the publications of the well-respected Brookings Institution, especially in *America's Capacity to Produce* and *America's Capacity to Consume*. As a matter of fact, another group of research workers thought Brookings' figures of \$2,500 for every family too low, not too high. In the National Survey of Potential Product Capacity, they estimated that a \$5,000 income for every family was possible if men and materials were fully used.

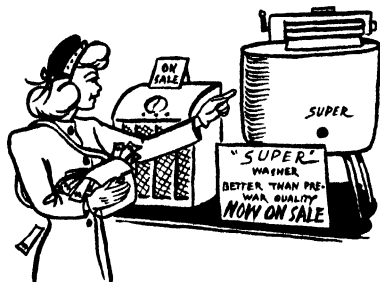
But, actually, 7 in every 10 families received less than \$2,500 in 1929, the peak year of prosperity. More than 4 of every 10 had less than \$1,500, which for a city family means a cold-water apartment and subsistence diet. Half the city families had less than \$1,890 to spend; half of the farm families had less than \$910. Remember, these figures are not for 1935, a depression year, when half of our families had less than \$1,160; these are figures for the boom year, 1929.

Under the goad of war, we built a system of production that dwarfed 1929. If anything like the same level can be made permanent for peacetime, the result will be standards of living for you and others beyond your dreams. And produc-

tion levels *can* be maintained, so far as the technical problems are concerned. We can raise and process the food, weave cloth and make garments, build houses, manufacture almost everything under the sun.

The problem is not one of production. The real problem is what keeps production rolling—buying and using what we can produce. Can we keep our consuming high enough?

We know that wartime savings and the pent-up ambitions of the people were ready to account for heavy buying at the end of the war. But savings, like alcoholic drinks, give only a temporary lift. Some people seemed to think that pent-up



demand, coupled with the war's technical inventions, guaranteed that we should all have streamlined automobiles and autogiros, gleaming kitchens and modernistic furniture, and all the other fixings of a dream tomorrow.

But that was assuming that war solves economic problems. It doesn't. It leaves us all the old basic problems—and stacks new difficulties in the road. After a war millions of workers have to change jobs, millions of fighters have to get back into production. Many prices have to be readjusted; other conditions cause great risk and strain. In many lands, the long history of postwar years has shown that they are risky, jumpy times, periods of wild boom or sickening deflation, not smooth periods of permanent prosperity.

And yet there *were* new advantages. We *did* have a tremendous backlog of buying power. We *had* invented undreamed-of products, made production incredibly efficient.

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We can use the new advantages and go to unprecedented heights. Or we can muffle our opportunity and watch the pitiful spectacle of poverty in a land of plenty. These are critical times. We have big choices to make that will affect our happiness for all our lives. How we shall fare depends not on acts of Nature, like storms or floods. It depends squarely on our own decisions. It depends on you and you and you—and me.

It depends too on people like the G.I. Joes we meet in the next chapter. Like many of us, they have got to thinking about which economic road Americans should take. We meet them at a barracks bull session.

Chapter 3

OUT OF THE MOUTHS OF G.I. JOES

IT WAS night in the barracks. Over in one corner some young-looking soldiers were talking, paying no attention to the blare of a radio. Two were stretched out on the bunks; two sat propped against the wall; one was draped about a chair. You could tell they knew one another well, for they argued freely and interrupted frequently and, although they were intensely serious about putting across their ideas, they kidded each other amiably as only tolerant friends can do. An older soldier, a man in his thirties, tilted his chair against the wall and read, serenely oblivious to the uproar of argument and radio.



The barracks bull session had begun in the usual fashion: talk about going home now that the fighting was finished; the gripes about the lack of recreation; and comments on the quality and quantity of dates in the near-by town. Then they'd started to talk about whether they would find jobs when they received their discharges, and have a respectable

income and a decent standard of living. Big raw-boned Pete had said, "If the government would just keep its hands off, we wouldn't have to worry about jobs after the war." And that had touched off the explosion.

"If the government kept hands off, there wouldn't be any jobs to worry about, you mean," Steve had said.

"What we need is a government that wouldn't be afraid of big business," Bill put in. "These big monopolies need to be busted up if there's going to be a chance for fellows like us to amount to a hill of beans when we get home."

"They tried that, Bill. It doesn't work. You can't unscramble an egg, m'friend. What we ought to do is to regulate these big babies so they don't get away with murder—and all the country's cash along with it."

"That's even worse than the trust busting that Bill's talking about. If you try to regulate business, you've got to have a bureaucracy down in Washington snooping over a man's shoulder all the time, telling him what to do. A businessman will have to get permission to sneeze. Do you call that freedom?"

"That sounds good, Mac, that freedom stuff. But does a worker have freedom when he's scared he'll not have a job or when his boss keeps his wages low? A fellow wants an income he can count on—we've all got the bad habit of wanting to eat regularly. If the government plans the economy and sees that everybody gets a fair share. . . ."

"Tom, that's communism," said Pete indignantly.

"It's not, but even if it was it would be better than this dog-eat-dog stuff you believe in." Tom was getting hotter by the minute.

"I think you're both off the beam," Steve said. "Business ought to go ahead as fast as it can, but at the same time the

Out of the Mouths of G.I. Joes

government ought to build houses and produce electric power like it does in the Tennessee Valley. . . .”

“But that’ll not do any good unless you bust up the money power. . . .”

“What are you trying to do? Sabotage free enterprise and the greatest organization for production the world has ever . . . ?”

“All this talk about busting up and the government doing this and that, when all we need is just to let things work themselves out and we’ll have a standard of living in this country that . . . !”

“Let things work themselves out the way they did in 1929? All aboard for a bigger and better depression, boys; next stop, the bread line. All off at the poorhouse except the businessman—he just wants to be let alone!”

“You’d turn the whole works over to a bunch of mushy-minded professors and brain trusters and theorists who never had to meet a pay roll in their lives. . . .”

“Now look, I’m a farmer. I don’t want this bureaucracy stuff either. After this war, I want to grow what I want and not have somebody telling me. . . .”

The older soldier, who had said nothing, stretched, yawned, and brought his chair to a four-point landing. The book he had been reading, Charles A. Beard’s *The Republic*, contrasted oddly with the comic books and detective story magazines which many of the others chose.



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"Now look, boys," he said.

"What's the matter, Doc? The noise interfere with the brain?"

"No," said Doc, "as a matter of fact I like it. Makes the place feel like home. But you're not getting anywhere—and fast. Why don't you give each one a chance to say what he wants to say? Rib him once in a while if you have to—but let him get it off his chest."

"You must think you're still leading the Town Forum on the Airways, Doc." Bill pretended to jangle an imaginary bell and imitated an announcer, "Town Forum on the Airways, folks. Topic for tonight 'America at the Postwar Crossroads!'" He faded his voice, "Town Forum Tonight" and again waved his imaginary bell.

"You want us to make speeches, Doc?"

"Nope," said Doc, "I just want more light, less heat. Hot enough on the drill field."

"What title do they give a doctor of philosophy like you in this man's army, Doc?" asked Tom.

"They call us private," said Doc briefly. The younger generation howled hilariously.

"Doc's got a good idea," said Mac. "You started this, Pete, by saying the government ought to keep hands off if we're going to find jobs. So let's hear what you've got on your mind. Doc will be the what-you-may-call-it, the moderator."

"What this bunch needs," said Doc, "is a sergeant at arms, not a moderator."

You have already discussed what you want out of life. Now you might raise in your classroom the question the G.I. boys are discussing in their barracks. How *can* Americans get jobs, money, higher standards of living? With your teacher or a student serving as

leader, get the ideas of *everyone* in your class as to what policies America should follow in this postwar world to give us the kind of life we want.

If your class is like most, you'll find at first that it seems each student who speaks has a different program for action. But many are similar, though expressed in different words, as you will find as the soldiers talk. Encourage everyone to speak his mind freely and fully even if the ideas aren't too clear or well expressed. After all, if you knew everything you want to know about economic organization, you wouldn't need to be reading this book, would you?

To get the ideas of those silent folks who don't speak too frequently in class (though they usually follow every word said), you might have each student write out as clearly as he can his proposed program for American economic organization which will result in jobs, income, high standards of living, liberty, or whatever else you prize.

Read the programs and discuss them in class (and outside, too, if you wish). Try to find the essential points on which you differ and on which you and the others think alike.

Where do you and the other students stand right now on the economic problems that affect your life? At the postwar crossroads, what road looks best?



Chapter 4

THE CASE FOR THE TRADITIONAL BUSINESS SYSTEM

WELL," said Pete, "I said the government should keep hands off business and I still say so. Here's the way I look at it. What was the war all about? For freedom, wasn't it? It's not the first war we've fought for freedom, and it probably won't be the last. Because freedom's what we stand for in this country—and we won't settle for less.

"Our ancestors in Europe didn't have freedom and they came over here to find it. When they got here, they saw to it that they owned their own farms and houses and that nobody pushed them around. They farmed the land without having to give some lord half the yield. They started their own businesses and they traded with anybody they wanted to. If they didn't get prosperous where they were, they moved west. And when England tried to tell them where and how they could do business, they took care of that.



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"Because they were free men with Yankee inventiveness, the country became industrial in a big way. It produced so much on farms and in factories that it became the envy of Europe—even of England, the country that had a big head start in industrialism. If you doubt it, remember how many Europeans came over to get in on a good thing. They wanted to enjoy the American standard of living, and to have a chance to own their own homes. And they wanted a fighting chance to get rich.

"The average American has recreation and gadgets and comforts that even the nobles of the Middle Ages couldn't touch. And why? Because we set men free to produce.

"When this country began rolling out the goods there wasn't any government getting in the way. The government minded its own business; it took care of the army and navy, bought more land in the West, and made sure that people obeyed property rights and didn't break laws. It didn't interfere with business the way it does now."

"A heckler wants to get in," said Doc. "As moderator, I'll let Steve comment but not make a speech. He'll get that chance later."

"How about tariffs and the land grants for railroad building?" said Steve. "I notice your independent, stand-on-your-own-feet businesses were glad to get government handouts for themselves whenever they could."

"Well, lots of people say infant industries needed protection and help to get started," answered Pete.

"The infants have become mighty big babies now. Do they still need a tariff bottle?" Steve persisted.

"Go ahead, Pete," said Doc.

Pete said, "I'm not advocating the government's financing or favoring people—business or relievers or farmers or any-

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body. I think people ought to stand on their own hind legs and not come running to the new Santa Claus, Uncle Sam, every time they're in trouble. People have got to be morally strong. The government should keep its hands off economic matters, instead of meddling in business with all these agencies and commissions and government corporations and bureaucratic falderal.

"The thing that gripes me, though, is the sneering attitude some of you fellows take toward business. All of you. Yes, even Mac who talks about leadership by business. You're all always looking for ways of regulating business or breaking up monopolies or introducing government ownership or hamstringing free enterprise. I don't think you know which side your bread is buttered on. What's made America the country it is, with the highest standard of living in the world, if it isn't free enterprise?

"In America we're all capitalists at heart. Americans are adventurous; they'll never trade the chance to make more money than the other fellow for some dead-level, narrow social security. We'll never give up risk taking, individual initiative, saving to better ourselves. We've all got a stake in the free-enterprise system whether we're people with money or people who *wish* we had money. Our American system has given workers jobs, short hours, and high wages. When business isn't prosperous we all suffer.

"We depend on businessmen all the time. I heard you fellows talking the other day, hoping there would be more low-cost prefabricated houses on the market. Well, there won't be unless some businessman sticks out his neck, risks a lot of capital. And businessmen aren't going to be very eager to invest in risky enterprises if they get their ears knocked down every time they go into action.

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"It's about time some of you fellows realize that what helps business helps you. Then maybe you'd forget the ball and chain you try to put on business through your precious high taxes and government control and pampering of trade-unions and boondoggling leaf-raking projects for people who aren't worth their salt!

"If the government would keep hands off economic matters completely and if bureaucrats would stop interfering with the law of supply and demand, free enterprise would have a chance to go ahead at full speed and show what it could do. There would be open competition among businessmen, and the consumer would buy from the man who made the best article at the lowest price."

Bill broke in hotly, "You're talking about a dream world that never was. I believe in free enterprise, but I know that to have it you've got to have laws against monopoly. We don't have free and open competition today."

"You can't eliminate *all* regulation and government activity and depend on your economic laws like supply and demand," said Mac. "That's certainly an extreme point of view. I don't think a modern businessman would go along with you. And don't go telling me I don't believe in free enterprise just because I think the government should inspect meat so that we're not all poisoned or tell radio stations what wave lengths to use so that we don't get Bob Hope and the Rose Bowl game all in one big jumble!"

Doc said, "Free enterprise is a big expression. When you use it, you've got to explain what you mean, not wave it like a flag. When Pete uses it, he apparently leans a good deal on *laissez faire*, the theory of the economist Adam Smith and what's called the 'classical' school of economists. *Laissez faire* can be translated roughly as 'Let us alone.' Maybe Pete

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hasn't read those economists, but many of his ideas sound like them. One American point of view about economics has grown up that stays pretty close to what those economists thought and said in the nineteenth century. The laissez-faire economists believe that there are natural economic laws that automatically regulate prices and supply and demand. They say the government should act to protect property and a peaceful life—and that's all. But we're not giving Pete a chance. Let's pipe down on interruptions. Go ahead on our traditional business system, Pete."

"I don't care what it's called," said Pete. "The important thing is what industry has done through the competitive system, even



though lately it's been handicapped by taxes and restrictions. Look at all the things we have now and didn't have at the time of the Civil War when our industrial system was a pup. We live longer, have shorter hours and more time to horse around and enjoy ourselves. We've got cars, radio, movies, canned food. . . ."

"K rations," someone said, swallowing rapidly.

". . . Telephones, tractors, washing machines, planes, cameras, . . . you could go on and on."

"Depressions?" suggested Tom with pretended innocence.

"Sure we have depressions," exploded Pete. "You can't have everything. Why don't we give industry credit for what it's done instead of beefing and complaining? You can put our production record against any country in the world and we beat them all. And what does it? Good old-fashioned capitalism! We ought to be proud of it, instead of trying to regiment it.

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"Of course there's overproduction once in a while because private enterprise can produce more than we can consume. So production slows up and supply drops until it equals demand. Then demand rises and we're off to new records.

"I don't know much about economics, not the way a scholar like Doc here does, but I do know there are natural economic laws and if you don't interfere with them you'll have steady progress. Why didn't we recover fast from the last depression? Because the government interfered with natural economic laws. Because it discouraged people who had money from putting it into business. How? By tinkering with the economic machinery, by setting up new rules every day, by taxing capital to death."

"No government can let its people starve, Pete," interjected Steve. "It doesn't matter which political party is in power. From 1930 on, government had to step in to feed people and keep a roof over their heads, and to try to pump some income into the economic system. When a ship is sinking everybody has to work together for the common welfare or they're all goners. Your sit-tight-and-wait advice is foolish. Not only that, it's cruel and inhuman."

Pete answered, "You remind me of another reason why all these ideas of regulation and socialism won't work. And that's human nature. People work for themselves—it's just the nature of the animal to do that. In the system we use, a man has to compete with other fellows to make a living, whether he's a businessman or a farmer or a factory worker. If we start handing people things on silver platters—relief and crop payments and pensions and \$100 every Tuesday—there won't be any more individual initiative. Then where will you get the drive that gives us inventions, new plants? Why will we want to take risks, Steve? You don't work

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hard unless you're working for your own personal benefit. You work hard to make a success of yourself or to make money or to beat out your opponent. That's what makes life worth living.

"With the war over we should get back to normalcy, and let business alone. Freedom's what we're fighting for."

He grinned, and added, "Ladies and gentlemen, I thank you for being allowed to speak before so intelligent a multitude. Gosh, I haven't made such a speech since I was in Laurelville High."

"All right," said Doc. "You've heard Pete's argument. That's his program for keeping you fellows out of trouble and on the job. I'll try to sum up what we should do, according to this view. You check me wherever I've got you wrong, Pete."

"First of all, the government shouldn't interfere with business and should stay out of economic matters. It should protect property and keep the peace. It should leave business alone and let competition among businesses go on unhampered. O.K., Pete?"

"That's right," said Pete. "If everybody takes care of himself, we won't need any state to be a fond papa to people."

"Second, taxes on business should be very low because businessmen need capital to invest if they are going to give people jobs. That right, Pete?"

"Right. Stop the old political game of soaking the rich."

"Third, get a government into power that's friendly to business and will encourage investors and individual initiative, not one that's constantly making business insecure by new government agencies or rulings."

"Or playing ball with the union racketeers and the strikers

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who lay down on the boys while they were at the front," added Pete.

"Look, Doc, is it part of the rules that we can't say anything while he raves on?" said Tom. "Because of all the. . . ."

"You'll get your turn," said Doc serenely. "I'm just trying to bring out what Pete believes about our traditional business system based largely on *laissez faire*. That's one conception of free enterprise. You don't have to agree with him. As Pete says, it's a free country.



"As your moderator, I'm not going to enter into the arguments, but maybe I should help to keep the issues straight. Pete, you've been arguing for the government to take its hands completely off business, and

you've been identifying that with the way things used to be in this country. Now that's all right up to a certain point; I think we'll all agree that there used to be *less* 'government in business' than there is now. But even if you take as your model the period from the Civil War to 1900, when the kind of business system we now have really got going, you'll have to agree that there was *some* government influence. Government was helping some businesses by high tariffs; it was doing some regulating of railroads; and so on. You'd agree that that is true, wouldn't you, Pete?"

"Oh, sure," Pete assented. "There was some regulation.

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But," he added vehemently, "it was a drop in the bucket, compared with what we have now. Why, nowadays. . . ."

"O.K.," said Doc, "that sets the issue straight. You aren't arguing for complete absence of regulation, but for a greatly diminished *degree* of it.

"Your big point, Pete, is that, if we were fighting for freedom, we'd better have freedom in our own country. And the way to get freedom is to encourage people to do as they think best, follow their self-interest, subject of course to laws, and not hedge them about with restrictions on their production."

"If you do that," concluded Pete, "the same good old system we've always used will work. We'll have jobs and our living standards will keep on going up. And we won't have to pull long faces about our chances for the future."

Doc said at one point, you may remember, "Free enterprise is a big expression. When you use it, you've got to explain what you mean, not wave it like a flag."

In economics, there are many such big expressions, big words, big ideas which need careful definition if people are to understand each other. Some of our difficulties in communicating with each other arise because we use the same words but mean different things by them. So we had best get clear what Pete means when he uses some words. Talk it over in class; try your hand at putting Pete's ideas in writing.

What do you think Pete means by

free enterprise	natural economic laws
freedom	socialism
government interference	self-interest
moral strength	regulation
competition	individual initiative

Just as important for you to answer is the question,
What do *you* mean when you use these words?

Chapter 5

TIME OUT

LET'S pause for a while and see how we are going on from here in this book.

So far, you've seen one man's ideas, Pete's argument for what he thinks has been our traditional business system. But

of course Pete didn't have statistics and history at his finger tips in an army barracks. If he had, he might have made a still better case and you would have had still more ideas to think about, to accept or reject. Therefore, the next chapter after this one will be devoted to bolstering Pete's argument.

If we're going to have a chapter to support Pete's argument, does that mean that the authors of this



book advocate Pete's solution to our economic dilemmas? Not at all.

For Bill will also have his say about monopoly. And there will be a chapter supporting his case. Mac will have his say

about leadership by business. A chapter will support him. Steve will talk about a two-front attack on economic problems, by government and by business. A chapter will support him. Tom will pass on to you his ideas about government economic planning. A chapter will support his ideas, too.

This book, you see, attempts to present the possible roads Americans might take to jobs, income, and higher standards of living. It presents several roads. It describes what advocates claim for their choice. The book does not try to tell you what to think. You will have to decide for yourself after you consider facts and arguments. That's democracy.

Why only chapters of support? Why not chapters of negative criticism of each point of view as well? It's true that we could have a chapter in which the supporter of anti-trust law enforcement disagrees with Pete, another in which the supporter of the new business leadership states his disagreements with Pete, another in which the supporter of the two-front economy points out his disagreement with Pete, another in which the supporter of government planning differs with Pete. And similarly, chapters for four disagreements with Bill, four disagreements with Mac, four disagreements with Steve, and four with Tom. For obviously there are some disagreements by everyone to each point of view—else the point of view presented would not be different from one coming before or after! There are many agreements too.

Then if we presented chapters of support for each disagreement . . . ! You can see that the whole presentation would be too long and complicated.

So we'll leave analysis and criticism to you. We'll concentrate on presenting the best case for each proposed road that we can. And occasionally a critic (or "heckler" as Doc

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calls him) will speak up on a point of real disagreement, if he just can't resist making a point.

These aren't roads which the authors have "dreamed up" by themselves. Rather, they represent influential schools of thought among our own people. Each of them is advocated by a sizable group of Americans—not all by the same number—as a practical line of approach that could and should be adopted within the next few years, within the framework of American democracy. Maybe in a few years others will be proposed. But right now these seem to be the rallying points for most Americans.

This book doesn't advocate any one road. It leaves the decision as to which economic approach you'll support to the only person who can make that decision—you.

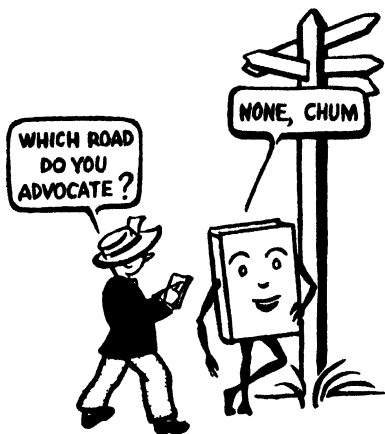
Here is another thing to remember: The social and economic organization of a great nation like ours isn't so simple as any one of the proposed approaches might make it seem. Furthermore, this country isn't ever going to put all the different proposed systems on a ballot, number them 1, 2, and 3, and vote which one to "adopt." *You don't adopt or install an economic system. It grows and evolves, slowly, out of a host of compromises and adjustments.*

No, the economy of a big nation isn't a simple thing. It is likely to be a compound of many elements. And that is the way our economy is going to continue to be. Even those who argue hardest for one "system" or another probably know that the national organization will never be altogether the way they picture it. Generally they've simplified their picture for the sake of emphasis in argument. They know that as we go along, running into new conditions and problems, with new resources at our disposal, we shall likely make some decisions along one line, others along other lines. And

they will probably be reasonably happy if in a general way we tend to go more along the line they have suggested.

But, for the sake of a reasonably clean-cut presentation, we shall set up each proposed system as if it *could* be put completely into operation.

But no book can think for you. You will have to do the thinking. And an important thing to remember is that to a large extent you will need to *suspend your judgment*. As you read case 1, you won't want to come to a snap decision accepting it. Get the facts and arguments clearly in mind. Organize your thinking about the case, but keep your decision open. Then, as you study the arguments and the facts backing the other cases, match one against the others, compare them, notice where they agree and where they disagree.



Finally you will be ready to come to some tentative decisions. But you'll need to remember that even they aren't final, for all time. It's a difficult trick to make up your mind, make your choices, and yet keep your mind open to new evidence that may force you to change. But anyone who wants to be a straight thinker has to master that trick. And you can do it.

Let's take time out, too, to see how the book can be used in your class.

The most easily understandable materials are the cases presented by the G.I. Joes. The boys aren't scholars or econ-

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omists, and they usually talk in everyday language about their ideas, much as political speakers do. So a class can spend all the time it wishes to give to the study of the economic roads for America in discussing the G.I. ideas, seeing where students agree or disagree, advancing evidence pro and con.

Many classes will want more evidence, facts, and arguments than those presented by the G.I. Joes. For such classes there is the more abstract and scholarly presentation of cases through the chapters of support. These are frequently more difficult than the cases of the G.I. Joes because they use economists' language. Many students will appreciate them for the facts, points of view, and ideas they mobilize. Many classes will center much of their most careful thought on them and read no other references.

Too, many students and classes will recognize that complete information on a large number of ideas and points of view cannot be contained in any one book. So they will wish to read the books, some easy, some difficult, which are listed in the bibliographies at the end of each chapter of support. From such books and from various current sources, they'll find new ideas to pass on to the class.

In any case, a good way to proceed may be to read all the "G.I." chapters (Chaps. 4, 7, 9, 11, and 13) first, rapidly, to get a general idea of the line of thought, then come back to a more careful analysis of each case. In that way, perhaps, each member of the class can select some one case that attracts him and study it in more detail.

You and your class should choose the way of study that will be most helpful to you.

As you read Pete's case, and the support for it (and Bill's and Mac's and the others), you will want to consider them

with care. You will want to discuss them and hear the ideas of others in your class who have read them. We hope you will want to learn still more about each proposal. If so, you'll supplement this book with information from other books, from visitors, and from probing discussions.

After you consider a point of view, you may find yourself in agreement or in disagreement with it. Surely you won't find yourself in agreement

with *all* the points of view advanced in this book, for each contradicts the others on at least some important points. If a person advocated *all* of the conflicting approaches to economic organization described in this book, he would certainly have an open mind—open as a sieve! Maybe you'll work



out a new point of view combining the advantages of several roads. Maybe it will seem clear to you that one of the roads offers the best possibility of success.

As you read and reflect, we'll promise you one thing. When we cite facts and figures, we'll cite the most accurate we can find.

But though the facts and figures are authentic and the arguments are the best we can find, you may reject the particular point of view being described. You may accept another point of view based on equally sound facts and figures, based on arguments that are also the best we can find. "How can that happen?" you may ask.

Well, your conclusions depend on *which* facts and figures

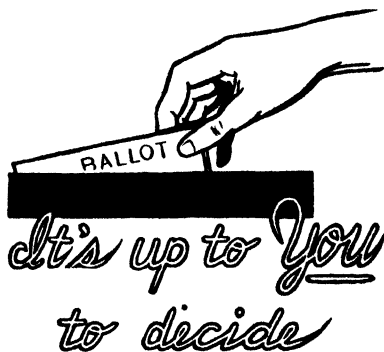
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you look at and accept and emphasize. Your conclusions also depend on your ideas of what an economic system is for. They depend on your beliefs as to what people are like, what the American experience has meant. For instance, in trying to prove that the traditional business system in America has been a success, Pete (or the supporting chapter) might point out that the middle class in America is larger and more economically comfortable than any other middle-class group in world history. That's true. But in trying to point out that the traditional business system has been a failure, Tom or his supporting chapter might point out that in 1929 one-tenth of 1 per cent of the American people had as much income as the 42 per cent of the American families who got less than \$1,500 a year. That's also true. Was the traditional business system a success or a failure? Well, you say, that depends on whether the important thing is to have a strong middle class or greater equality of income among people. And whether one of those is preferable depends upon. . . . Do you see how facts may be true but how different interpretations of them may be possible?

Pete could argue that the United States, operating through free enterprise, outproduced every other nation in the war. But Tom could argue that this production came because during the war the United States planned its production. You will have to look carefully at the evidence to make up your mind.

So the best we can do is to cite those facts and figures and arguments that are called sound by advocates of each particular road. We'll give you one helpful hint. As each G.I. speaks and as we pile up evidence for him, watch for ideas other than economic. Watch for the ideas on government. Do they check with what you believe government can and

should do? Watch for the ideas he has about how people act, why they do the things they do. Is this the way people behave, according to your experience? From what you can or have learned about psychology, are people actually like what the G.I. Joe thinks they are? Watch for the ideas he has about what we most want in America. Are the things he thinks most important, the things you most want for yourself and other Americans? In other words, do you agree with his point of view on what's good, do you agree with his philosophy? Watch for differing ideas on history, psychology, and philosophy, as well as differences on matters of economic organization.



You'll have to use your own intelligence and experience in making tentative decisions as to which road is preferable, if you and the other Americans are to have steady jobs, freedom, opportunity, participation in community life, the new car you would like to own, or whatever it is you want the economic system to make it possible for you to do with your life.

Consequently, you will probably find this book different from many others you have read. Many books claim to have within their covers the "Absolute Answer to All Our Problems," which the author—clever fellow—has somewhere discovered. Obviously, if an author has got hold of the absolute answer to all our problems, all you have to do to share this wonderful knowledge is to memorize the book and act upon it.

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But in economics there is much disagreement as to what is the absolute answer to all our problems, if indeed it exists at all!

Many economists believe that there are no fixed unchangeable answers. Truth, they say, is relative. What is good for one generation may not be good for another.

We have to figure out what we want our economy to do and make the best judgment we can as to which road leads us to our wished-for goals.

As you go along in your thinking you will need to remember that the one great fundamental commitment of this nation is to *democracy*. That means that as a loyal, democratic citizen you can't judge any economic proposal altogether on the basis of whether it will get the most cars produced or the most roast beef on the average consumer's table. You have to study the proposal first of all to see whether it squares up with the principles of democracy.

What does democracy mean to you—specifically?

Can you write a set of standards or criteria that any economic proposal must meet, in terms of essential democracy, before you will be willing even to consider it in terms of economic efficiency? You may be amazed at how differently various persons will approach this matter of defining democracy. For example, one person may say, "I can't consider any proposal democratic which would lead to putting a lot of wealth and economic power into a few hands, while millions remain poor and insecure." And at the same time another may say, "I can't consider a scheme democratic unless it gives full freedom to the strong and able man to rise as high as he can by legitimate means."

Chapter 6

SUPPORT FOR THE TRADITIONAL BUSINESS SYSTEM

IN AMERICAN life there are many who believe substantially as Pete does. As you might expect, the members of this group are not wholly in agreement among themselves: Some oppose practically every bit of economic regulation the government has put in force, while others in varying degrees accept some basic regulations. But the thing that distinguishes the group and is common to them all is that they place their faith in the traditional business system, in unregulated, uncontrolled capitalism, in an economy where business is let alone to make its way unaided by subsidies and unhampered by restrictions. They quote Jefferson, "That government is best which governs least"; they condemn "government tinkering" and call for "hands off business."

It is their case which we shall support and amplify in this chapter.

AMERICANS CAME TO A NEW WORLD FOR FREEDOM

Those who advocate the traditional American business system are very clear on what they regard as most important in human life, to be cherished above all other values. They stand foursquare for *freedom*. The authentic American tradition, they say, is one of free men doing as they see fit, working for their self-interest, and creating abundance through

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unfettered enterprise and initiative. Right there, they say, is the fundamental reason for the difference between the kind of achievement in America and in most of the rest of the world.

This freedom—this love of freedom—goes back to the very roots of our history. Historians like Charles Beard and James Truslow Adams point out that those who ventured into the New World brought more than their baggage. They carried with them also their European heritage, a set of ideas and customs. And the *desire for freedom*, derived from their European experience, was one of the biggest things in that heritage.

Those Europeans who didn't share the fierce love of liberty, who were satisfied in the old authority-ridden states, stayed at home. For the decision to migrate over treacherous seas to an unbroken wilderness was a bold gamble. The weak and the timid didn't have the daring it took.

In search of freedom, 4 million came by sail before the Revolution, 5 million more came before the Civil War. Before the nineteenth century ran out, 14 million more crowded the steerage space of the steamships, and a million a year came to Ellis Island in the twentieth-century years before the First World War.

They carried a strong suspicion of authority. Sometimes authority was a master, sometimes it was a church, and sometimes it was a government. Authority was what told you what you could or couldn't say openly, whether you could meet together, where you had to go to church, and what you did with what you grew and produced. It pushed you around. It made you a slave or a serf or a peasant or a wage slave.

To be free to do as they pleased—that's what the newcom-

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ers wanted. They'd had enough of dominating churches, strong governments, tyrannical masters who told them what to do and when to do it. They were going to be free men, even if it meant migrating across hostile seas to face savage tribes and endless wilderness. In later years they placed a huge figure on an island in New York harbor and called her Liberty. She was their ideal.

FREEDOM AND CAPITALISM CAME HAND-IN-HAND

One way they expressed their desire for freedom was their quest for their own land, their own property. No modern American can wholly appreciate the powerful desire of these immigrants to own their own home and soil. It grew out of centuries of the old economic arrangement, called "feudalism," in which the lords owned everything. Like a modern racketeer, the lord sold protection to the serf and graciously allowed him to live on the lord's land. The serf lived all his life on the same piece of ground but could never own it. He worked endlessly, but a large share of the fruits of his labor went to the lord and the clergy. When such a serf came to America, owning his own home and his little piece of land was infinitely more than just a way of making money. It was a symbol of a new status in the world, a token of self-respect and dignity.

Before fearful sailors of Columbus sighted land, the tight medieval world of feudalism was breaking up. Growing in its place was a new economic arrangement in which each man sold his goods and his labor in the open market for whatever price it might bring. The spark plugs of the new system were the merchants, the tradesmen, the money lenders, who formed a new "middle" class, neither lords of the land nor

humble serfs. They dealt in silks and spices from the Orient and sold their treasures, each merchant in competition with the other. Workers sold the only thing they had, their strength or skill. They became sailors aboard merchant ships or independent farmers called "yeomen." When England moved into factory production, they became wage workers. The new economic arrangement was called "capitalism."

This capitalist way of arranging economic society was also in the mental baggage which the colonists and early immigrants brought to America.

The colonists not only cleared the forests and worked the land; they also built towns at the water's edge and engaged in trade. The towns were go-betweens for colonial farmers and English merchants. To the towns for shipment the farmers sent tobacco, wheat, flour, rice, indigo, cattle, horses, fish, whale oil, timber, furs, and iron. Back from England they got textiles, clothing, house furnishings, and ironware. But, as colonials, they were forced to use British ships, to trade through British ports, to concentrate their own production on raw materials rather than on developing industries. For the British had a policy called mercantilism, which taught that the function of a colony was to supply raw materials and markets while the mother country did the manufacturing and selling. The regulations of colonial industry and trade were set up by British governments with this in mind.

But as the colonies grew older, they quarreled more and more with the mother nation about the restrictions mercantilism forced upon them. The New World atmosphere encouraged independence, initiative, fierce love of freedom. As a Revolutionary War soldier put it, "What we meant in going for those redcoats was this: We had always governed our-

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selves and we always meant to. They didn't mean we should."

Back of the struggle was the rising power of the American merchant group, eager to ship in their own vessels, to control their own trade, to start their own small factories. This mercantilist system dominated by English capitalists wasn't made for them, they felt. They wanted an *American* capitalism in which they could produce what they wanted to, trade with whomever they wished, and use whatever ships they chose. Along with religious and political freedom they wanted economic freedom. When the thirteen colonies rebelled, it was as much because England was stifling a genuinely free American capitalism as for any other reason.

You all know the story: how the colonists won, how a Constitution was made, how the people streamed over the mountains going west, how our political democracy developed.

FREEDOM AND OUR TRADITIONAL BUSINESS SYSTEM ARE INSEPARABLE

Exponents of our traditional business system believe that there is a close relation between the fact that democracy has been our way of life in America and the fact that capitalism has been our economic system.

It is freedom which has generated the tremendous energy of the American economy. It is *because* we have been free from state controls that we have attained the industrial development that has made the United States the rich man of the family of nations, the arsenal of democracy. Edgar M. Queeny, who is of this persuasion, says in *The Spirit of Enterprise*,

The only difference that can be found between the American economic and spiritual climate and that of

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other nations of the world was the inalienable right of Americans of freedom to pursue happiness without interference from the state. This the American Constitution guaranteed the American people. By it for the first time a community set up specific safeguards of its freedom against its government. . . .

This new freedom, protected against encroachment by the state, released for the first time the full powers of the human mind, and allowed it to dream and hope and exercise, unhampered, its full adaptability and ingenuity. . . .

There is ample evidence that Adam Smith's philosophy profoundly influenced the framers of the American Constitution; that the Constitution reflects Smith's doctrine of natural liberty. Smith's tenet was that "Man's self-interest is God's providence," and that if government refrained from interfering with free competition, industrial problems would work themselves out. . . .

The material benefits of economic freedom—increased production, greater wealth, a higher standard of living—aren't the only benefits, say those who favor a free, unregulated capitalism. A major advantage of freedom in economic matters is that it assures the individual of his *other* cherished liberties—political freedom, civil rights, and religious liberty. For instance a University of Chicago economics professor says in *A Positive Program for Laissez Faire*,

Much significance has been, and should be, attached to the simultaneous development of capitalism and democracy. Indeed, it seems clear that none of the precious "freedoms" which our generation has inherited can be extended or even maintained, apart from a genuine "division of labor" between competitive and political controls.

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By way of evidence, those who oppose a regulated capitalism or a planned economy point to the totalitarian nations of Europe. In every case, they say, where compulsory national economic planning was made effective, civil and religious liberty disappeared. For instance, in fascist lands labor unions lost their identity and freedom of action; cooperatives were destroyed. In all totalitarian nations schools were forced to become propaganda agencies instead of searchers for the truth. Even freedom of worship was sometimes denied.

In answer to this, some people like Tom and Steve would say that economic planning in a democratic nation which wanted to preserve individual freedoms would not follow the pattern of a country like Germany where the leaders *wanted* to destroy personal liberty. But, respond advocates of our traditional business system, even if the planners have the best of motives, undesirable encroachments on essential human liberties creep in. We all have some tendency to want to plan the other fellow's life for him; and benevolent governmental planners, once they get started, add a little regulation here and another there, until the end result is a stifling of liberties for which our forefathers fought and died.

Here are some questions to ask yourself before you read further. What do the advocates of the traditional business system think to be most precious in American life and the free enterprise system? What do they value most? (The ideas people value most we will hereafter call their "values.")

Is there anything else that might be valued as highly as or more highly than the major value prized by the advocates of traditional business?

How well do either of these values square up with your concept of democracy?

What are your own highest values, the things you want to preserve or introduce into American civilization, perhaps the things you would fight for? In other words, what do you believe in?

Incidentally, do you see how your choice of values (that is, your philosophy) influences your thinking about what economic organization is best?

THE RECORDS PROVE THAT FREE ENTERPRISE HAS PAID

When the census takers came knocking at the doors in 1860, they found that the big four among our products were flour and meal; cotton goods; lumber; and boots and shoes. In 1929 according to Faulkner's *American Economic History*, the big four were motor vehicles; meat packing; iron and steel; and factory and machine-shop products. In other words, in the days when people were wondering whether the Illinois lawyer, Abe Lincoln, would do for president, they had to give their time and energy to production for elementary needs—bread and clothes and shoes and lumber for houses. But now we can put most of our energies into building the tools and machines that distinguish a high-powered civilization from one operating on the margin of meeting elementary needs. For our free-enterprise economy has developed such power that merely meeting elementary needs takes little of its energy.

Wealth Has Increased Phenomenally under the System. The census of 1860 showed that only a billion dollars were invested in all the 140,000 industrial establishments of the land. But at the turn of the century one single business, the United States Steel Corporation, was capitalized at beyond a billion. And, after the twentieth century dawned, the energy of free enterprise went far beyond its earlier accomplishments.

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Between 1900 and 1929 the wealth of the country had risen from 88 billion dollars to 363 billion.

Production and Income Have Zoomed Upward. In the last half of the nineteenth century American industry began a production miracle the end of which is not yet in sight. While the population grew to three times its former size between 1850 and 1900, the value of manufactures in this new industrial land increased eleven fold, jumping from 1 billion dollars to over 11 billion.

The economic historian Faulkner says, "From 1859 to 1914 the value of American manufactures increased eighteen fold and from 1859 to 1919 thirty-three fold." Hacker, another economist, puts it, "From 1900 on, the national output of goods and services had doubled and in some cases trebled, while the country's population was not much more than half again the size it had been thirty years before." (Don't bother to memorize the figures, but try to understand their general meaning.)

The nineteenth century was but a sample of production to come, and it was accomplished in the freest economy of any time. H. W. Prentis, Jr., an American industrialist, in an article on *Some Economic Aspects of Post-war Planning*, wrote of the twentieth-century growth,

American industry, with the challenge of opportunity, with the incentives provided by a free society, with the drive of competition, proceeded from 1900 on to build America into the greatest industrial nation the world has ever known. Before the outbreak of the Second World War our national income was greater than that of the United Kingdom, France, and Germany combined, in spite of their much greater population; it was greater even when adjusted by cost-of-living indexes for the respective countries concerned.

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The total physical production of manufactured goods had been nearly tripled in the 40 years between 1899 and 1939—without the vast increase due to the production of war materials since 1939 being included in the picture. In 1899 American industry was using 2.1 horsepower of mechanical aid for each worker; in 1939 it provided 6.5 horsepower for each worker. Any comparison of the purchasing power of industrial workers and that of other wage earning groups—with the purchasing power of the corresponding groups in other industrial countries—reveals that even in 1938, before we had emerged entirely from a long depression, the prodigious productivity of an industrialized America was spreading its benefits widely among all strata of its population. The capitalist system, whatever its excesses and shortcomings, was producing a degree of well-being for the American people that was not matched anywhere else; and the dynamic of the system was rooted deep in the nature and habits of the American of every stock.

But if Pete had been able to reach into his knapsack and pull out such figures, which are none too easy to bear in mind, Steve and Tom might rightly object and say that production has not grown so much as many figures would indicate. They might quite correctly point out that the dollars the modern American carries in trouser pockets, or overflowing handbag, can't buy as much today as a dollar did in grandfather's day. (Haven't you ever set grandfather right with remarks on price differences when he has pointed out how little money he managed to live on in the 1890's?)

Yet even so, Pete could counter with remorseless figures which show that American production has risen steadily. And we may be sure that he would also point out that the growth came under the traditional business system. Suppose

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we take one year as a "normal year" and translate our figures into dollars of that year. This will keep our figures from being based on low prices one year and high prices another year. Economists frequently select 1913 as a "normal year." In terms of 1913 dollars the income of the American people in 1909 was 28 billion dollars. But in 1922, with the spur to production given by the First World War, that income had risen to 40 billion. By 1929, at the height of the prosperity boom, it had become 52 billion dollars.

Another reliable way of comparing income years ago and now is through per capita figures. Per capita (you guessed it) means "for each head." Between 1900 and 1929 the per capita income of United States residents increased by nearly 38 per cent. And, according to a Brookings Institution study, the 38 per cent increase was achieved while working hours were decreased 13 per cent. This means that we got not only more goods and services but more leisure in which to enjoy them. Can one doubt that American capitalism was a success after reading such figures? ask those who agree with Pete.

Progress and Invention Have Flourished. The rise in wealth and production and income doesn't tell the whole story, say the advocates of the traditional business system. We don't just have more home-smoked ham, more potatoes, more and bigger log cabins. For when it gave the worker and producer freedom, the American system released the energies of their brains as well as the energies of their muscles and the result was new products.

In vigorous competition, each producer sought to improve his product. Sometimes the changes were small; even so, over a period of years, they added up to a big difference. But

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often the product was wholly new—a reaper instead of the old scythe and cradle; a cotton gin that could do the work of many men; a horseless carriage; a television set. Other nations had scientists, too, and inventors; but no other nation ever matched the vigor with which American producers put the new thing into mass production, got it into the hands of great numbers. And the nations that came closest to matching our record were those with greatest economic freedom.

The vigor of competition penetrated every occupation. Farmers developed better crops, finer livestock, more efficient methods. Commercial food handlers developed vast improvements in canning foods, refrigerating them, quick-freezing them, altogether making a richer diet available at low cost the year round.

Take your house, however old or new, and compare it with housing of the post-Civil-War years, as you can find it pictured in old copies of *Harper's*, *Leslie's Weekly*, or in books like Frederick Allen's *The American Procession*. Take a look at the automobiles, telephones, electrical equipment and household goods, and modern plumbing and central heating, all of which you accept as part of your world but which your grandparents in their youth never knew. Yes, say the advocates of the traditional business system, there is no doubt that free enterprise brings out the best of our energy and ability. Capitalism is a success.

The advocates of our traditional business system use evidence from history to support their point of view. Here are some questions to ask yourself about this section of the chapter.

In our American background, what factors that have helped to make America industrially powerful are emphasized in the historical evidence presented?

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Are there other factors in our background which help account for our industrial strength but which are not emphasized or not mentioned?

Does the historical evidence presented jibe with your own knowledge of history? Does it clash? (If you need to take time out to review your knowledge of American history, there will be no better time to do it than now.)

Incidentally do you see how interpretation of history can be used to support or deny points of view on economic matters?

What about Depressions? To the hecklers who point to depressions as evidence of the inadequacy of the business system, thinkers of Pete's group retort that unemployment is characteristic of advancing civilization. Edgar Queeny writes,

But unemployment is not characteristic of private enterprise; it is the growing pains that are characteristic of our liberal civilization's social order! Bushmen have no unemployment! There was never unemployment when workers were slaves!

Disrupted economies appear countless times in all ages of civilization in all countries.

Even if occasional depressions are characteristic of our system, they are a low price to pay for an economy that makes possible production miracles. They are a low price to pay for an economy which always comes back after each setback more powerful than before. The causes of depressions are obscure; perhaps they are the fault of wars, rather than of the economic system, speculates Mr. Queeny.

Most of these unhappy periods follow wars, when economies are always dislocated, when men are drained into the nonproductive work of armies, when business and commerce are diverted from their peaceful pursuit of supplying man's wants into providing for killing and destruction.

During war men destroy former production and waste current production while civilians use up their accumulated store of useful things. Whole economies are pushed backward. Nature demands retribution for such orgies, and until economies recover and are readjusted, nations have inevitably paid with periods of want, adversity and hardship.

In America we suffered such a period of distress and unemployment in 1785, as an aftermath of the Revolutionary War; others following in 1837 and 1857 were harvests of popular enthusiasm resulting in speculative land booms in the Middle West. There was a prolonged depression in the 1870's and the latter 1880's, a sequel to the Civil War. We had brief ones in 1907 and 1921.

However, from all these depressions American private enterprise regenerated itself with full vigor. It attained greater prosperity—so much so that in almost every case the vale of each depression provided greater national income, more employment and a better average standard of living than the heights of prosperity that preceded the earlier depression.

Perhaps, too, depressions are caused and prolonged not by the inherent workings of a free economy so much as by the tinkering that is done on it. Unorthodox remedies, disturbing laws, sudden shifts of policy that undermine confidence are not only the quickest ways of bringing about depression but also the surest way of blocking natural recovery. Mr. Queeny goes on to say,

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The depression beginning in 1929 and reaching its depth in 1932, however, was different—not in origin but in the fact that American enterprise could not dig out! In previous depressions groups which advocated unorthodox remedies were only vocal minorities. They agitated from without. This time they were in control of government and in a position to enforce their theories and remedies.

Furthermore, say some defenders of the traditional business system, depressions are not wholly bad. As H. W. Prentis, Jr., a former president of the National Association of Manufacturers, puts it,

Periods of depression, while they may cause some social disturbances, are not entirely unsalutary. For example, depressions liquidate private investment which has proved to be uneconomic or useless. Second, such periods discipline managers of private business to produce goods that people want and at a price they will pay. Third, this disciplining process in turn stimulates business managers to produce improved goods, invent new articles and processes, which have the effect of raising the scale of living and providing additional employment.

Pause for a moment and examine what kind of government is best, according to the advocates of the traditional business system. What should a government do, according to this point of view? What shouldn't it do?

From what you now believe, describe your ideas of what a government should be.

Do you see how ideas on what government should and shouldn't do, can and can't be, influence your thinking on economic organization?

FREE CAPITALISM HARMONIZES WITH NATURAL ECONOMIC LAWS

Artificial regulation must be avoided, say the advocates of the traditional business system, for a free economy works in accordance with natural economic laws. These laws can no more be violated without punishment than you can refrain from eating and drinking without dying.

One basic natural law is that of supply and demand, well expressed by Adam Smith and his followers. The price of a product depends upon how much is brought to the market and how many people are willing to pay for it. When less butter is brought to the market than purchasers wish to buy, some of the prospective buyers will offer to pay more than the former price. So many buyers want the scarce butter that the price will go up. On the other hand, sometimes more butter is brought to the market than people are willing to buy at the established price. Then the butter cannot all be sold unless the sellers reduce prices.

When the business cycle dips down into depression, the supply of goods is usually high, but the demand for them has fallen off. Prices have to fall. When prices are low enough and people begin to buy again, the backbone of the depression is broken.

In this system characterized by supply and demand and by prices that go up and down, competition is the life of trade. Many sellers try to persuade many buyers to purchase their commodities. Each buyer tries to get the most for his money. Each seller tries to make the most attractive, low-priced product by producing goods as cheaply and efficiently as he can. Each is working for his own self-interest—the buyer trying to get his money's worth, the seller trying to make sales to

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avoid failure and to boost his profits. Through such competition in a free and open market, with supply and demand adjusted by prices flexibly going up or down, our economic system prospers.

The product made by industry in a free capitalism must stand or fall on its own merits. It must be useful or people won't buy. It must be produced economically so that people will pay the price asked and so there is a profit margin for the maker. If the government were making products, there would be no concern for profit making and consequently products might be useless or wastefully made.

The law of supply and demand is only one of the natural laws that account for the rise and fall of prices and make any outside regulating or planning agency, whether of government or business, not only unnecessary but undesirable. If you care to learn about others, you might examine such a textbook as F. R. Fairchild, *Economics*, published by American Book Company, 1938. Your school probably has copies of this or similar economics texts.

Again we might pause for some questions, this time on economics. According to this point of view,

What causes depressions?

What interferes with speedy recovery?

What are the natural economic laws?

How are prices set?

How does competition work?

What makes a product sell or fail?

What are some other possible answers to such questions? Can you set them forth clearly, logically, consistently?

How about your own thinking on these complicated matters? Do you accept, reject, or doubt the answers

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this section supplies to such questions? (Incidentally, you'll get more insights into such questions later.)

FREE CAPITALISM HARMONIZES WITH HUMAN PSYCHOLOGY

Central to a free economy is the belief that if each man minds his own business and works for his own benefit, the economy will progress and prosper. As Adam Smith said in *The Wealth of Nations*,

Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of society, which he has in view. But the study of his own advantage naturally, or rather necessarily, leads him to prefer that employment which is most advantageous to society.

Each man's selfish decisions, then, in the long run result in the good of all. As a matter of fact, the prosperity of all will more likely come if each individual works for his own welfare than if individuals or a government consciously try to promote the public good. Adam Smith is our authority again. His phrasing is eighteenth century, so read him carefully.

Every individual who employs his capital in the support of domestic industry, necessarily endeavors so to direct that industry, that its produce may be of the greatest possible value. . . .

He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an

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invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good.

It is fortunate that self-interest does promote the economic welfare of all, say the advocates of traditional business. For people are fundamentally selfish and it is good that we have an economic system which agrees with human nature instead of struggles against it. Men work for their own profit; that is the major human incentive. It is the freedom to seek opportunities for profit and material advancement which has released the vigor, initiative, inventiveness, and ingenuity that have characterized the American economic system. Restrict the freedom in any way and you kill off these qualities and get the kind of lifeless economy typical of authoritarian civilizations.

In the material you have just read there are ideas as to how human beings behave. According to this point of view, what are people like and what do they work for? What other possible psychological interpretations of people and their drives are there? As you know people and from what you may have learned of psychology, what are your own ideas on what people are like and what they work for?

Again, do you see how ideas on psychology may influence our opinions on economic systems?

NO SUBSTITUTE FOR UNFETTERED FREE ENTERPRISE

All in all, say the advocates of the traditional business system, there is no substitute for free enterprise that's really free

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—not fettered. There is no substitute for a state that refrains from intervening in the economy. There is no substitute for the profit motive as an incentive to make men achieve. There is no substitute for freedom.

Max Lerner, in his introduction to the inexpensive Modern Library edition of Adam Smith's *Wealth of Nations*, sums up the reasons why advocates of the traditional business system oppose government intervention into economic processes. Lerner, who does not himself subscribe to this view, writes:

Since a natural order exists whereby the enlightened selfishness of all men adds up to the maximum good of society, since there is a "divine hand" which guides each man in pursuing his own gain to contribute to the social welfare, it must follow that government is superfluous except to preserve order and perform routine functions. The best government is the government that governs least. The best economic policy is that which arises from the spontaneous and unhindered action of individuals.

We suggest that some of your class members make themselves experts on our traditional business system by studying the arguments that favor and those which oppose this point of view. A few references supporting this case are given below. They are not the only books or pamphlets on the subject, of course. And the members of the class who specialize on this point of view should hunt up the newest things, as well as the articles appearing in newspapers and magazines which discuss these same issues. There will not be any shortage of materials for study. They should prepare for discussion and be willing to change their minds; they should not consider themselves debaters, restricted to defending one

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position. If one group in the class concentrates on this conception of free enterprise, they may present their ideas before the whole class as a panel or discussion group.

The class might listen to their ideas and the results of their research after the whole class has read about the other proposals for economic organization described in this book. (Other groups of the class should similarly specialize on other proposals and report to the group.) Then you'll really know something of the strengths and weaknesses of different points of view. You'll be able to make up your mind about something that will have a powerful influence on the kind of life you live.

CHART OF ECONOMIC PROPOSALS

	Tradi- tional business system	Restoring competi- tion	Business leader- ship	Two-front economy	Govern- ment planning
Interpretation of history					
Ideas of psychology					
Values; philosophy					
The rôle of govern- ment					
Interpretation of economics: Natural laws Monopoly Prices Investment and spending Planning					

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Your class might begin a master *Chart of Economic Proposals* while each one of you draws up and maintains his own individual chart. As you read on and as you study, you might fill it in. For instance such a chart might look somewhat like the one on page 63, though you will probably want to work out your own version. Certainly you will need a great deal more space.

REFERENCES

The American Economic System Compared with Collectivism and Dictatorship, by the United States Chamber of Commerce. Washington, D. C.: The United States Chamber of Commerce, 1936.

The advantages of the traditional business system are set forth and contrasted with the disadvantages of collectivist systems. The Chamber of Commerce represents business in America. Easy reading.

Free Enterprise: Its Past and Future, by the National Association of Manufacturers. National Association of Manufacturers, 14 West 49th St., New York, 1944.

An easy-to-read statement of the advantages which freedom in enterprise has brought with it. A preview of the greater advantages which can still be achieved if enterprise is kept free.

The National Association of Manufacturers also publishes periodically a *Bibliography of Economic and Social Study Material*, listing its own publications as well as others.

Freedom and the Economic System, by Friedrich A. von Hayek. Public Policy Pamphlet No. 29. Chicago: University of Chicago Press, 1940.

An attack upon economic planning as the road to destruction of our democracy. By implication, the author argues for our traditional business system. Fairly difficult.

How We Live, by Fred G. Clark and Richard S. Remanoczy. New York: D. Van Nostrand Company, Inc., 1944.

A Study Guide for this volume, by Harold Clark and M. R. Brunstetter is available on request from the N.A.M.

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Some Economic Aspects of Post-war Planning, by H. W. Prentis, Jr. American Institute of Chemical Engineers, 50 East 41st, New York City, 1943.

The author, an industrialist, formerly president of the National Association of Manufacturers, considers postwar plans and the promise of American output. He warns against tampering with the traditional business system. Not too difficult reading.

The Spirit of Enterprise, by Edgar M. Queeny. New York: Charles Scribner's Sons, 1943.

The case for our traditional business system, presented through a criticism of the New Deal and of charges that free enterprise is monopolistic. The author defends business on moral and psychological as well as on economic grounds. The book is not too difficult reading.

The Wealth of Nations, by Adam Smith. New York: Modern Library, Inc., 1937.

The classic presentation of laissez-faire theory, first published in England in 1776. Long and difficult but worth study. Historically one of the world's most influential books.



RESTORING COMPETITION

Chapter 7

THE CASE FOR RESTORING COMPETITION

YOUR chance, Bill," said Doc, tipping back precariously in his chair.

Bill looked up and said, "Glad to talk because I agree with Pete that freedom is important. I believe in competition and I'm against planned economies, no matter who runs them—businessmen, or governments, or Nazis, or anybody. I'm a firm believer in free enterprise for this country.

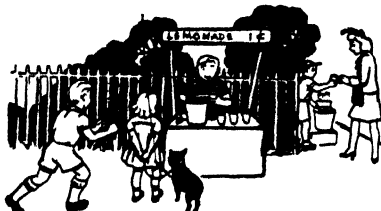
"As a matter of fact I believe in it even more than Pete does. I believe in it so much that I think we ought to *have it again!* In other words, I want to see the laws enforced so that we'll *really* have men competing against each other in honest-to-gosh competitive production and selling.

"The trouble with Pete's argument is that it's not realistic. It's nice to talk about natural laws and every-man-for-himself competition. What do they call it, Doc—*laissez faire*? Pete talks as though we really have this open competition and prices going up and down, according to the supply and the demand. But anybody with eyes can see we've got big powerful companies in this country which can pretty much dominate things, squeeze out their competitors, and set their own prices. Look at all the prices that stayed the same right through the depression even though demand went down and the shelves were crowded with supplies.

"When we talk about open competition we're like kids

playing make-believe. This is a powerful industrial country where there are monopolies, where corporations work hand in glove with each other, instead of competing. Remember now, I'm not against business or industry or free enterprise or capitalism. But I am against monopoly power, any monopoly power. And the greatest monopoly in America today is big business."

"What's wrong with big business?" interposed Mac. "I always thought it was nice to have these big corporations turn-



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ing out refrigerators and cars and cigarettes and magazines in peacetime, and lots of tanks and planes and battleships in wartime. I was glad not to have to fight the Japs with peashooters built in somebody's kitchen or shed. I always thought this country had the world's

most efficient industries. If you want automobiles, you've got to have big plants to build 'em. Seems to me even Joe Stalin at Moscow drank a toast to the American production which rolls out of the factories of these big bad businesses."

"Sure, that's all right," agreed Bill. "Big outfits can be efficient, and we've got to take advantage of their efficiency. But we won't have efficiency *unless* they compete. We'll just have big business using its power over everybody else.

"People won't stand for a few corporations and men having so much power over their lives," he went on. "People don't want a new set of bosses who do what they please.

"I remember hearing about one railroad fellow who was asked how the people would be affected by one of his shenani-

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gans. He said, 'The public be damned!' Freedom's a joke in a setup like that!

"Now take my town, for instance. The big chain stores have come in and are hogging the business. Sure, they sell at lower prices—now. Matter of fact, they sometimes sell at such low prices they drive the independent out of business! If they keep lower prices that's O.K.—except for the poor independent who has to go to work for the big company instead of staying a small businessman. But when they use their profits from a string of towns to bankrupt their little competitor in one town, that's something else. And that's the way they do it. A good smart independent can beat them on straight efficiency, but they can break him by use of power. Then when they get him knocked out, what's to stop them from raising the prices sky high? What's to stop them from selling any old goods, no matter what the people think about it?"

Tom, who was to speak later on governmental planning, broke in. "Looks like I agree with Bill—in part anyway. Did you ever try to organize a union or get yourself a salary increase or a fair price for your crops when you're dealing with one of those big babies? I know! When you bargain with a corporation that has monopoly power, you're bargaining with a wall. Look how long it took to get unionism into the steel plants. Look how the porters fought monopoly for the right to organize."

"Then to top it off," continued Bill, "the big babies take their profits out of town and turn them over to New York bankers or stockholders, or somebody. All I know is that whoever it is gets the money doesn't live in our town.

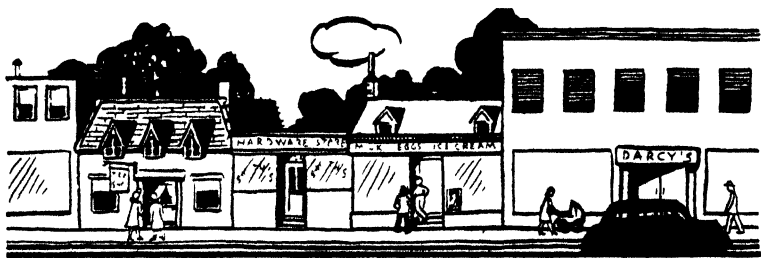
"Companies aren't even efficient when they don't have to compete. When they get monopoly power, they get sloppy.

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If they want to produce a lot, they do. If they think they see more profit in producing little, they do that. Why should they bother with big research programs to make better goods when they can keep on making money in the same way? You can see what's going to happen to invention and progress if we don't get back to competition. We'd never have got to the place we are if American free enterprise had been as cautious as big businesses are today. 'There's no coward like a million dollars,' they say.

"And it's not only caution. Sometimes it's downright sabotage. Let a razor blade manufacturer, for instance, get control of the market and you'll begin to notice the shaving edge of the blades getting duller. Why? So that you'll get fewer shaves per blade and have to buy more blades. And all the time the equipment for making a blade that will last for weeks of shaving is there in the factory! Let a fellow invent an improvement and a monopoly will buy it and quietly smother it. Because the monopoly has no competition. Without competition, the monopoly has no incentive to improve the product.

"Take the way the aluminum people kept the price high and production low because there was no competition before the war. Why are telephone or telegraph companies slow



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to use new ideas? Because they have monopolies. They're almost as bad as the post office, a government monopoly. I'm all for any businessman or politician or labor leader who will bust them up and keep them busted up."

Steve broke in, "Why bust them up? Why not control them, regulate them, make them work for the public interest? Let private enterprise go ahead in fields where there is competition but have government control for monopoly and some government ownership. I'm for going ahead on two fronts, the private-enterprise and public-enterprise fronts. Why not use your big combinations to produce goods for people? You can eliminate the high prices and profits you talk about through careful planning."

Bill responded, "Because that's just jumping out of the frying pan into the fire. It would bring on such a mass of regulations and controls that a man would have to look to the government every time he turned around. It'd just substitute bureaucratic power for monopoly power. I claim this country doesn't want to give up free enterprise and get monopoly enterprise in its place. And I also claim people don't want any socialistic form of government or any bureaus running their lives either.

"There are a lot of people like me who want to go into



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business for themselves. Small businessmen are the backbone of America. They don't want to be employees, always working for someone else, whether it's the government or a corporation.

"That's why I'm all for antitrust law enforcement. You wouldn't know it, but we do have laws against monopolies, laws to enforce competition. The farmers and small businessmen got together and they put pressure on the government and they saw that laws were passed. These antitrust laws would have made little ones out of the big ones and we would have had free competition again.

"But what happened? The laws weren't enforced. Business kept getting bigger and bigger and the men who were supposed to enforce the laws didn't do it. Yes, I know the laws are still on the books, and I know Teddy Roosevelt tried to be a good trust buster, and I seem to remember that he broke up a couple of big combinations. But there were loads of ways of getting around the law, I guess.

"So now, instead of the competition that happy Pete thinks we have, we've got a few powerful combinations which boss industry and give us whatever products they think we ought to have. That's what Pete's traditional business system has come to. That's what's happened to his free competition.

"Instead of prices rising and falling with supply and demand, we've got prices that stay up because big companies can afford to clamp down on production to keep them up, come depression or high water. These big boys don't compete any more. If they aren't complete monopolies, they play ball with others in the same industry because it's easier on the nerves and on the profits."

"So—" Doc reminded him, looking at his watch like a good moderator.

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"So we ought to enforce the laws—and make new ones if we have to. We ought to break up monopolies and all kinds of combinations that have strangleholds on prices and that don't produce what they could. Give us a chance to start our own businesses if we want. If we're workers, give us a chance to deal with men we can see, instead of big monopolies dictated from somewhere in New York. Just give us an even chance in a free market and we'll amount to something when we get home. We don't need other kinds of super-duper regulation and coddling. We don't need any newfangled planning. We just need to get back to free enterprise that's really free. We need to bring competition back to life."



Competition

"Well," said Doc, "looks as if we've heard from Bill now on his convictions. Let's see if I can sum up the road Bill would have us take toward prosperity.

"Bill agrees with Pete fundamentally in believing that the best system is free enterprise, with very little governmental control or participation. But he believes that the key to a healthy free-enterprise system is free and open competition, preferably with many not-too-large and powerful competitors, and unrestricted operation of the law of supply and demand through flexible prices. But he disagrees with Pete because he doesn't think we now have those things in full measure. So he believes that government needs to do just one thing—restore full competition and the free working of the natural law of supply and demand.

"The essential difference between Bill and Pete is not a

question of policy, for they both admire the same thing. The difference is on a question of fact. If the facts show that business is highly competitive, that prices move freely according to supply and demand, then Bill would have to agree with Pete that the only thing needed is to remove the restrictions government has put upon business. But if the facts show that much business is monopolistic, then Pete would probably have to agree with Bill that something must be done about it.

"We *used* to have competition and a free market, Bill says, in the system the old-timers, the classical economists, decided to call *laissez faire*. But after the Civil War, business grew big and got monopoly power. In many lines competition disappeared and the free market became a market of managed prices and controlled production. So business could keep new inventions off the market, or if it did use new inventions and smart efficiency to reduce costs, it didn't reduce prices sufficiently to make up for the new low costs. Prices became 'sticky.' They didn't move up and down as they would in a free market. One company in an industry or a few companies that decided there was more profit in 'cooperation' than competition would dominate. That's what we mean by monopoly power. So the free-enterprise system went off the rails.

"What's the answer for the postwar world? Get the free-enterprise system back on the rails. Enforce the antitrust laws and get the kind of competition that will make concerns reduce prices and operate efficiently. Keep hammering away at setting up a free market again in which the laws of supply and demand can work. Then prices will rise and fall as they should. People employed in lively competitive industries will be able to buy at low prices and keep the wheels

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of industry turning. We'll have what we want then. That right, Bill?"

"Wish I had an education to say it purty-like the way you do, Doc! Yes, that's the way I see it."

Let's examine some of the words and phrases Bill uses in attacking monopoly and asking for the return of competition. Sometimes he uses words to mean exactly what Pete meant. Sometimes he gives them a somewhat different meaning.

What do you think Bill means by

free enterprise	big business
competition	small business
monopoly	efficiency
the free market	bureaucratic power
managed prices	socialism
"sticky" prices	antitrust laws
freedom	

What do *you* mean when you use these words?

How do Bill's ideas square up with your concept of democracy? If Bill is right about the present state of affairs in business, how does *that* fit in with your ideas about democracy?

What group controls our economic system, according to Bill? What should be done about it, again according to Bill? How do Bill's ideas differ from Pete's on what's wrong and what could be done about it? How are they alike and how are they different in their ideas of government? On other ideas?

Chapter 8

SUPPORT FOR RESTORED COMPETITION

DON'T get Bill wrong. He's no radical, proposing a new system. He believes in democracy and may be a more earnest free-enterprise man than Pete, as he claims to be.

Though he is for antitrust activity, Bill's not a believer in much other regulation or control by the government. He feels that this one key piece of regulation—to enforce competitive methods—is the major government control needed. But while Bill doesn't want any seizure of power by the government, he also doesn't want any seizure of power in this country by a small group of powerful men, responsible to no one save themselves and their stockholders. Bill says he believes in a system in which everybody has a fair chance—where a man sells his labor or produce to the highest bidder and where he buys the best goods and services he can find at the best price he can discover.

Throughout this chapter, in accordance with the plan we told you about, we are going to present the point of view of people who believe in general as Bill does. We'll be citing the best arguments we can find and using facts and figures from reputable sources, just as we plan to do in backing up each of the other points of view. For instance, in talking here* about "sticky" prices, we are following those who advocate government action against monopoly to "unstick" them.

Support for Restored Competition

FREE ENTERPRISE IS BASED ON A FREE MARKET

Central to the free-enterprise system which Bill endorses is the idea of a *free market*. To think straight about the whole thing we had better understand what a free market is. We'll look first at a very simple illustration, an oversimplified, mythical market place.

A Market That Is Truly Free. In our make-believe market place trade is simple and direct. The market is located in a big square in the center of town, and it's filled with stores and stands at which goods are sold. It's jammed by farmers who come to town to buy and sell, and merchants standing behind their store counters to buy and sell. The town is on an island; there is no other place to go to buy or sell.



Farmer John has brought potatoes to market. He sells them to the man who offers him the highest prices. But Farmer John can't ask a profiteering price because also in town is Farmer Gray, anxious to sell (as well as Farmer Jones and Farmer Smith, a little way down the street). If Farmer Jones asked too much, business would move to Farmer Gray. Farmer John would then have a load of potatoes to truck back home. Farmer John is selling in a free market. You can see how competition in a free market prevents his price from going sky-high. You can see how it keeps him on his toes to grow the best potatoes in this county—and to grow them efficiently, for if he can't raise them profitably at the prices he can get in competition with his neighbors, he will go bankrupt.

Before he goes back home that evening, Farmer John wants

to buy himself a new harrow to break up and smooth the soil. He goes to the farm machinery manufacturer, Mr. Jack, and gets a good price. He can afford the harrow out of the money he makes from the sale of potatoes. If Mr. Jack's price is too high, there's always Mr. Green, Mr. Black, Mr. Brown, and Mr. Blue with whom to trade. They are also in the farm-machinery business. They'll all make a profit, but not too much, because they have to sell their products or go bankrupt. Farmer John can go to any of them to get the best price he can. For it's a free market.

Enter—Monopoly Power. But now, let monopoly power enter this little market on the mythical self-sufficient island, and let's see what happens to Farmer John. Mr. Jack, in the farm-machinery business, is prospering. For one reason or another people have chosen to buy from him. Perhaps his product is good, his prices reasonable, his profit margin low, his advertising effective. His business is so good that he forces Mr. Green out of business. He buys Brown's plant. He expands his factories. Black and Blue stay in business, but they are barely hanging on. For the enterprising Mr. Jack is making and selling 80 per cent of the farm machinery, and they have to be content with splitting the remaining 20 per cent of production and sales.

One fine morning Farmer John goes to town again, and once more he is in the market for farm machinery, this time a new mower. So he approaches Mr. Jack's prospering salesroom with its new fancy front. To his dismay he finds that mowers have gone up a little in price since he last bought farm machinery. Not for me, he says. So he hurries to Brown's and Blue's. Their mowers have gone up in price too. (Incidentally, we're using farm machinery only as an example;

we're not implying that the farm-machinery business is more or less monopolistic than other heavy industries.)

He berates first Black and then Blue for their prices, and asks why they don't manufacture more mowers and undersell Jack, now that he has lofty price ideas. Technological invention and productive efficiency have made it possible for the farm-machinery business to cut costs. Farmer John's brother-in-law works in Mr. Jack's factory, so Farmer John knows for a fact that wages have not gone up and that the workers are working faster and producing more than ever before. He knows too that the prices Mr. Jack has to pay for raw materials have been forced down since Mr. Jack threatened to buy his raw materials elsewhere. But instead of falling, farm-machinery prices have risen—not only Jack's but Black's and Blue's too.

Well, Black and Blue tell him, it's this way. They were being squeezed and squeezed by the competition of Mr. Jack. Mr. Jack suggested that hereafter he would set the price and decide how much would be produced. If they wanted to "go along" on the basis of the prices and quotas he set, they could keep their 20 per cent of the business. If not—well, Mr. Jack didn't say, but they could make a pretty fair guess as they thought about Green's bankruptcy and Brown's forced sale. They decided to "be reasonable," which means they decided to string along with Mr. Jack and charge his prices. Mr. Jack was a powerful man.

The Consumer Pays: The Monopolist Prospers. Farmer John unwillingly pays the price, for he needs the mower. He is buying not in a free market, but in a controlled market where monopoly power has fixed the price, kept a high profit margin, restricted production.

But a monopolistic control of the market, with less pro-

duction at higher prices, isn't the only advantage Mr. Jack has. He keeps his advantage as a buyer. He even increases it. When Mr. Jack goes to buy his potatoes, he is buying in a free market where open competition keeps prices down. Should he not care for Farmer John's wares or prices, there's always Farmer Gray or Jones or Smith. When Mr. Jack buys raw materials for his plant he pays low prices, for he carefully chooses the best price offered from among the competitive bids. Since he is not using all of his plant capacity, he doesn't need all the workers. So he can keep wages steady or even lower them without fear of strikes. There are always other workers who need jobs. Mr. Jack is "sitting pretty," for he sells in a controlled market and buys in a free market.

The Consumer Asks Government Aid. If Farmer John meets the same kinds of monopolistic control when he tries to buy fence wire and cement and a tractor and fertilizer and paint, you can readily see that the potatoes he sells at competitive low prices won't make him a decent living. So he goes to the government of our make-believe little self-sufficient town and asks for some financial help. So do other Farmer Johns and Worker Johns laid off by Mr. Jack and other monopoly power industries. The government is sympathetic and gives them relief money, or extra money for the crops, or temporary jobs on the roads. Money in his pocket again, Farmer John heaves a sigh of relief till he again goes to the market place to buy. For Mr. Jack, who has keen eyesight and well-developed financial antennae, sees him coming, government money jingling in his pocket. And lo! when machinery-hungry Farmer John enters the store, the hay loader he wanted has gone up. Since inventions, low prices for labor and raw materials, the high productivity of labor, and effi-

Support for Restored Competition

ciency of business organization have reduced machinery costs and made increased production feasible, the new high price wouldn't be possible in a free market. For in a free market, competition would enforce a low sales price.

So Farmer John needs still more government money to afford the monopoly prices of the controlled market place. Farmer John has to cut down on his doctor bills and on paint for his buildings. That's not so good for the doctor, or the hardware-store owner. As Mr. Jack grows more efficient, he needs fewer workers. For he is intentionally not expanding his output, preferring high prices and high profits. The government debt grows larger as the government hands out more to Farmer Johns and Worker Johns. And the little tale wouldn't be complete without pointing out that Mr. Jack joins the "Down with Subsidies" league and tries to convince the government that it should cut down on money given to the poorer groups so that the government budget will balance!

THE ISLAND'S PROBLEMS ARE OUR ECONOMIC PROBLEMS

An oversimplified example, this little town on the island. But the same problems and the same principles stay with us when we move from the simple little market place into the complicated web of modern production and distribution. The market place becomes the great apparatus of modern business and commerce—thronged cities, department stores, stock market, steel plants, labor unions, trade associations, etc. The island becomes the nation, surrounded by tariff walls. Mr. Jack and his cooperating former competitors become the powerful "heavy industries" with monopoly control or monopoly tendencies, industries like cement and shoe machinery and steel and tobacco and oil and aluminum, industries whose

“sticky” prices refuse to rise and fall according to any “natural laws.”

Farmer John represents all those consumers who lack monopoly power, who sell their goods or their services in a free market where they compete with others. One of these is Farmer John’s brother-in-law, who represents workers in a society in which production is restricted and unemployment a threat. Another is the man from whom Mr. Jack buys raw materials; he represents the tobacco growers, the tanners, all those who are paid low prices by monopolistic power, which maintains a wide spread between what it pays for raw materials and what it charges for finished products. Like Farmer John, the unorganized buyers and sellers frequently ask for subsidies and relief when the money they get isn’t enough to pay the prices asked for the things they need. These Farmer Johns frequently combine in labor unions, consumer movements, farmers’ associations, “little business” lobbies, relief groups, to get more power over the prices they ask for their goods and services and over the prices they pay.

RESTRAINTS OF TRADE

In the complicated web of modern business Mr. Jack and the men who are his “competitors” in name only use many methods. The “restraint of trade” may be called a “pool,” a method of dividing up businesses and controlling prices. It may be called a “trust,” a device by which stockholders turn over their stock to trustees to do with as they wish—in return for regular dividends from monopoly power. Or it may take the form of a holding company, an organization created to dominate other corporations by owning or controlling a portion of their stocks. It may be a merger, an outright pur-

chase of one organization by another. Or it may be a community of interest, where one company buys enough of another company's stock to make its influence felt. It may be a "gentlemen's agreement," through which prices are set and sales areas allotted to certain manufacturers who agree not to sell in the other fellow's territory. It may be a trade association; people in the same business banded together and reaching agreements may bring about the same goal. It may be a cartel, an international trust arrangement. Whatever it is called, a monopoly may be recognized by these signs, says a report by the government's recent monopoly investigation, the Temporary National Economic Committee:

Monopoly almost certainly exists in those industries characterized by price rigidity over a reasonably long period of time when it is accompanied by falling costs of production, declining demand, or increasing surpluses in production. Likewise, a simultaneous rise in price by various firms in an industry, where there is no evidence of any factor tending to increase the price in terms of increased cost of production, strongly indicates the presence of monopoly. Identical bids to the Government are another indication of appreciable monopoly power. Still another rather effective test of monopoly is steady upward movement of prices in a manufacturing industry where technological efficiency has materially reduced costs. Under competition a manufacturing industry tends to lower costs steadily over a period of time if technological progress has increased.

The island is an illustration of how our economic organization works, according to the opponents of monopoly practices. Review for yourself the basic economic ideas of those who call for restored competition. Answering these questions may help:

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What is a free market?

How do you recognize a market controlled by monopoly?

What methods do monopolists use?

Why are prices "sticky"?

What brings about restricted production, high prices, unemployment?

What happens to the consumer in a monopoly-dominated market?

WHY THE FREE MARKET DECLINED

According to those who urge the restoration of competition, the free market began to disappear when businessmen in the 1870's attempted consolidations to protect themselves against ups and downs in price and supply and to enjoy the benefits of large-scale production. As Harold Faulkner says in *American Economic History*,

Economists at opposite ends of the scale of economic thought have agreed that the consolidation of smaller units into larger is an inevitable result of the conditions brought about by the Industrial Revolution. Whether this trend is inevitable or not, it has without doubt been very marked in our economic life. Most of the witnesses appearing before the Industrial Commission in 1899 believed that "competition so vigorous that profits of nearly all competing establishments were destroyed" was the chief motivating force for business combinations, and this appears to have been the immediate cause which led many to unite to escape being driven to the wall.

It should be pointed out that though competition is generally supposed to be the very heart of free enterprise, many

owners preferred the peace and quiet of "agreements." Many businessmen themselves wanted to escape from the hardships of competition which often was as wild and woolly as the wildest West. As Edwin G. Nourse of Brookings Institution says,

Free enterprise, taken literally, means types of business organizations which sharpen competition to such a degree as constantly to eliminate the less efficient producers and progressively consolidate business in the hands of the most efficient.

Quite aside from the frowns of antitrust laws and regulatory agencies and the complaints of laborers or suppliers of services and wares, producing enterprisers themselves have revolted against so heroic an interpretation of the principle of free enterprise. The weaker brethren have objected to elimination in this battle of efficiency, and even the strongest have at times found the pace so hot that they were willing to participate in some general scheme of abatement. This is notably true of Judge Gary's policy of "friendly competition," the trade associations' attempts to "civilize competition" and a whole flock of price maintenance measures which have been vigorously pushed, particularly from NRA days down to the present.

ATTEMPTS TO RESTORE COMPETITION

When men in America found that the free market was being restricted by big business, they feared new masters and became uneasy.

Skilled workers met the challenge to their freedom through unionism. The strike and the boycott, rather than legislation, were labor's weapons, and they readied themselves to use force against force.

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Farmers, finding that freight rates frequently discriminated against them, as railroads favored some places and some powerful shippers, banded together in local lodges called "granges," and demanded an end of discrimination. Agriculturalists were dominant in a third party called the "Populist." Politically, they fought the candidates who supported business interests. It was these embattled farmers who forced the passage of the first of a number of acts which used government power to obtain reforms. Through belligerent protest, the Interstate Commerce Act was passed in 1887 to eliminate special rates and discriminations in railroading. But corruption was not rare in the days when politicians were bought by the moneyed. It was not until 1906 that railroad regulations developed real strength; then the Hepburn Act gave the Interstate Commerce Commission the power of enforcement and made railroads, as Hacker says, private monopolies regulated in the public interest.

As industrial consolidation proceeded, a popular drive backed antitrust legislation, which was to prohibit business concerns from becoming so big that they could dominate a field, fix its prices, decide how much to produce. Why were the people concerned about monopoly when American production was rising phenomenally? As workers, they found difficulty in bargaining with the powerful industrial trusts. As rival businessmen, they found it almost impossible to compete with the monopoly power of the combinations. As consumers, they feared that monopolies would mean careless service, restricted production, and higher prices to increase the profits of big business. As citizens, they resented domination by the vested interests over government.

The Sherman Antitrust Act of 1890, pushed by stalwart believers in free enterprise, declared every restraint of trade

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or commerce illegal and every person who monopolized or attempted to monopolize any part of trade or commerce, guilty of a misdemeanor.

But administrations didn't enforce the act. Faulkner says that was because the administrations were big-business-minded. Thurman Arnold says it was because funds for enforcement were niggardly. Some critics of the laws say they were vague and unenforceable.

Writers tried to spur government into action. Ida M. Tarbell wrote *The History of the Standard Oil Company*; Thomas Lawson serialized in a popular magazine the story of *Frenzied Finance*; and Upton Sinclair, through his novel *The Jungle*, startled the nation with an account of filth and poor working conditions in the meat-packing industry. For their labors, they were rewarded with the none-too-pleasant name "muckrakers." Yet their agitation brought results.

Men running for office were questioned by the electorate as to their attitude toward big business. Theodore Roosevelt, in office by the accident of the death of McKinley, who was one of big business's "favorite presidents," made a reputation as a trust buster. His major victory was in dissolving the Northern Securities Company, which held the stock of three great Northwestern railways. He opened the fight against the Standard Oil Company and the American Tobacco Company. Yet even then it wasn't an all-out fight. Did you know that during the administration of Teddy the trust buster, the antitrust staff of the United States Government was composed of only five attorneys and four stenographers? Thurman Arnold, the free enterpriser who opposes monopoly, is the source of this information.

Big Business Grows Bigger. The large corporations prospered and grew bigger, despite periodic checks on consolida-

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tion. It seemed to be in the cards that the giants would prosper; they could utilize by-products, secure the best management, work through division of labor, give each man a specialized job. They could supervise the entire process of production from start to finish and not be hampered by concerns that controlled one specialized phase of the productive process like raw materials or transportation.

Since there was an antitrust law, the consolidators worked through gentlemen's agreements, holding companies, interlocking directorates (the same directors on the boards of several companies), community of interest, and other devices. If big business couldn't use trusts, it could use holding companies, organizations created to dominate other corporations by owning or controlling a portion of their stocks. Standard Oil took the lead here. If breakups were ordered, the boards of directors of the various smaller companies "understood one another," since they were formerly one big happy family. Faulkner says in his *American Economic History*, "So extensive was 'the community of interest' in the oil companies that the dissolution of the trust in 1892 and of the holding company in 1911 made practically no difference."

The turn of the century was a great period of consolidation in American economic life. Powerful groups were formed not only in steel but in sugar (1891), copper (1899), oil (1900), and tobacco (1901).

The drive against irresponsible noncompetitive industry continued. Woodrow Wilson named his program the New Freedom. He wrote,

American industry is not free as it was once free. American enterprise is not free; the man with only a little capital is finding it harder to get into the field, more and more impossible to compete with the big fellow.

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Why? Because the laws of this country do not prevent the strong from crushing the weak.

He initiated the Clayton Act, another antitrust law which hit at price discriminations and interlocking directorates. It was during his administration that the Federal Trade Commission was established to work against conspiracies in restraint of trade. Yet, like the Interstate Commerce Commission in its early days, the Federal Trade Commission had no teeth, that is, no power of enforcement. It could order a corporation to "cease and desist" but, if the corporation refused, elaborate, time-consuming court proceedings had to follow.

Big business grew bigger.

BANKERS SUCCEEDED INDUSTRIALISTS AT THE CONTROLS

Just as capitalism moved from mercantile capitalism into industrial capitalism in the nineteenth century, so now at the beginning of the twentieth century finance capitalism succeeded industrial capitalism. Major industrial concerns were increasingly dominated by bankers who lent them money and were represented on their boards of directors. The author of *The Triumph of American Capitalism*, Louis M. Hacker, says,

The enterprisers of the industrial-capitalists epoch had been interested in profits naturally; but they had also been goaded on by the instinct of workmanship. To turn out great profusions of goods, to lower costs constantly, to defeat their competitors in trials of strengths; this was as much a creative effort as the long and solitary toiling over his bench of the original skilled handicraftsman. The finance capitalists, operating out of their banks, frequently completely alien to the processes of production, every transaction a bookkeeping one, rather

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than involving men, machines, raw materials and fabricated ware, were interested only in profits. Profits were to be made at all cost; by monopoly controls, first and foremost; and also by limiting production, withholding invention, fixing, and keeping inelastic prices, rigging the security markets, manipulating and vulgarizing judicial processes, and encouraging paid management (itself insecure) to fight labor mercilessly. Finance capitalism operated through the device of monopoly: and monopoly killed the expansive and progressive characteristics of free industrial enterprise.

The appearance of the United States Steel Corporation (1901) was a symbol of the new era we were entering, for the corporation was a monopoly and was controlled by finance. Andrew Carnegie, Scottish immigrant industrialist, sold his major steel holding to J. Pierpont Morgan of the banking family. America knew its first business organization capitalized at over a billion dollars, an organization which owned the ore deposits and limestone fields and controlled the entire steel-making process from the extraction of raw material to the final product of the great furnaces.

In 1913 the Pujo Committee of Congress found that four allied financial institutions in New York City held 341 directorships in banks and in transportation, public utilities, and insurance companies, whose aggregate resources were \$22,245,000,000. Before the First World War turned our eyes to foreign battlefields, many thoughtful Americans were therefore worried by the appearance of what seemed to them the most dangerous trust of all—the “money trust.”

THE UNWORRIED TWISTED TWENTIES

But the twenties were years when less clamor was heard for antitrust laws. Prosperous, the public seemed apathetic

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to reform. Candidates approved by big business were elected. Many citizens seemed to believe that consolidation was an inevitable characteristic of an industrial civilization, that the antitrust laws were useless. Why worry anyway, said some—isn't big business producing an ever-higher standard of living? The Federal Trade Commission revelation that 16 large groups controlled 53 per cent of the country's total electric-generating capacity did not deeply disturb the nation. It caused something of a political flurry but no agitation as aggressive as that of the Populist decades or the years when William Jennings Bryan assailed the vested interests in his unsuccessful drives for the presidency. That monopoly was moving into the food industry, the movies, banking, and retailing, was a fact noticed but not widely deplored. Ever before the public, to soothe discontent, was the shining fact that between 1922 and 1928 the population of the country had grown about 12 per cent but its manufacturing output had grown 33 per cent. Its production per industrial worker had increased about 25 per cent and its net wealth was higher by \$41,550,000,000.

Meanwhile industrial consolidation was stepped up still further. Holding companies were common in industry in the twenties; the public-utilities empire of Samuel Insull rose and poised itself for the great collapse. Meanwhile two young men gathered data for a classic study of one of our economic institutions, the corporation. In *The Modern Corporation and Private Property*, Berle and Means showed that 200 corporations controlled more than half of the corporate wealth of the United States—200 among America's 200,000 corporations.

THE WORRIED THIRTIES

The depression revived concern over monopolistic practices. Books on monopoly control appeared, the popularized works bearing such titles as *Rulers of America*, *The Robber Barons*, *Lords of Creation*, *America's 60 Families*; the scholarly treatises carrying such titles as *The Decline of Competition*, *The Theory of Monopolistic Competition*, *The Masquerade of Monopoly*. Economic theorists believed that a clue to the persistence of depression might be found in prices, and restrictive production. The scholarly Brookings Institution, for instance, made studies of production, consumption, capital formation, and price making. Throughout its studies it argued that American economic salvation lay in low prices and full production. Monopoly control, many economists claimed, kept the prices of the powerful from declining. Critics coined the term "oligopoly," meaning "rule of a few," for there were relatively few pure monopolies.

What period in American history is emphasized in this argument of those who would restore competition? What laws and struggles over laws seem to them important?

From what you know of history is this account of the struggle for laws against monopoly correct? You can check it against any good history that deals with social and economic problems as well as wars and political struggles. For instance, Faulkner and Kepner in *America, Its History and Its People*, have chapters on the growth of the labor movement, agrarian unrest, the consolidation of business, and the struggle for governmental regulation of monopolies.

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Is this part of our history overstressed by the antimonopolists? Are other parts underemphasized? What for instance?

THE EXTENT OF MONOPOLY TODAY

In the late thirties, the Temporary National Economic Committee was set up by Congress to study the degree and results of monopolistic practices. Some of the conclusions of this committee sum up the present status of the corporations that collect tribute at what Thurman Arnold calls the "toll bridges of modern society." Regarding monopoly, the Committee concluded in 1941,

While no final evaluation is possible concerning the amount of competition and monopoly present in our economy, certainly monopoly has greatly increased in American industry during the last fifty years because of the lax enforcement of the antitrust laws, the impetus to price-fixing given by World War I, the tremendous development of trade associations during the twenties which increased price-fixing, the N.R.A. experiment in 1933, and the great merger movements from 1898 to 1905, and from 1919 to 1929.

This committee named the following industries as those in which one or two firms controlled nine-tenths or more of the supply: aluminum, shoe machinery, glass container machinery, optical glass, nickel, molybdenum, magnesium, magnesium alloys, telephone service, trans-Pacific communications, point-to-point radio telegraphy, radio-telephony, Pullman cars, transoceanic aviation, beryllium, domestic telegraph service, international cable communications, bananas, electric accounting machines, plate glass, electric lamps, large glass bulbs, glass tubing and rod, metal bases, airbrakes, oxy-

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acetylene, and sulphur. Basing its study on a sampling of questions included in the census, the Temporary National Economic Committee listed scores of products in which the four largest producers controlled more than three-fourths of the output in 1927. They were as varied as plug chewing tobacco and tractors, milk bottles and aluminum ingots, canned soups and cartridges, snuff and brass tubing. The final report concluded that "it thus appears that two-fifths to one-half of the goods covered by the census are made in fields where four concerns controlled three-fourths or more of the supply."

The TNEC was a governmental investigating committee. What should government do about these findings?

According to the antimonopoly thinkers what has government to do with economic affairs? Should it plan the economy? Should it regulate business? Should it prohibit trusts? Should it keep hands off the economy?

How does this check with what you believe a government should do in a democracy?

THE ADVOCATES OF THE FREE MARKET SUM UP

This, then, is the situation as opponents of monopoly power see it. Free enterprise, in the beginning of the nineteenth century, was a system that relied upon competition to ensure low prices, efficiency, and resourceful production. As Nourse of Brookings Institution points out, its assumptions were

- (1) As to government, let its activities in the field of business be limited to the very minimum necessary for the maintenance of property rights and peaceful life.
- (2) As to business, let the system of private capitalism

grow naturally under free enterprise, and the law of supply and demand will operate automatically to establish the right prices.

Free enterprise depends upon a free market. But consolidation has appeared and monopolistic practices have changed the character of the free market and made it a market in which prices are "sticky," in which restrictions of production are possible, in which inefficiency isn't promptly punished by keen competition. So, argue the group of antimonopoly defenders of free enterprise, whose case is supported in this chapter, the only way we can achieve free enterprise is to use the antitrust laws to force business to compete, to lower prices, to produce fully, to be efficient.

Is Bigness a Curse? The "old" trust busters were against bigness itself; see, for instance, Justice Louis Brandeis' *Other People's Money* and *The Curse of Bigness*. The "new" trust busters are opposed to the abuses of monopoly practices and tendencies, not to "bigness" itself. They would use the anti-trust acts as a way of keeping business competitive and prices low through prosecutions of serious offenders. As the foremost representative of this approach, Thurman Arnold, says in *The Bottlenecks of Business*,

The fundamental objective of the anti-trust laws is not to destroy the efficiency of mass production or distribution. Our ideal of a free market does not contemplate an inefficient market. It is not size in itself that we want to destroy, but the use of organized power to restrain trade unreasonably, without justification in terms of greater distribution of goods. . . .

There is only one sensible test which we can supply to the privilege of organization, and that is this: Does it

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increase the efficiency of production or distribution and pass the savings on to the consumers? . . .

This test means that we should say to every business enterprise: "You may grow as big as you can provided that you can justify the extent of your organized power by showing that it contributes to the efficiency of mass production and distribution. We will, on the other hand, attack you if you seek to maintain your system of distribution by using your organized power to prevent experimental developments by others either in production or in distribution or in price policies." Size in itself is not an evil, but it does give power to those who control it. That power must be constantly watched by an adequate enforcement organization to see that it does not destroy a free market.

From what you have read does it seem that the points of view of those who want to restore a free market and those who advocate *laissez faire* are alike or different as to values? Does each stress freedom as of paramount importance? Is the opponent of monopoly willing to take away some of the "freedom" of businessmen? How can this be justified? Exactly what is freedom anyway—doing as one pleases?

Do you get any insights into what makes people behave the way they do, from the approach advocated by the antimonopolists?

FOLLOWING UP THIS STUDY

Once again you have had an opportunity to read the case for one approach to our economic problems, that of the antimonopolist who wants to restore the free market. Follow the course he advocates, and you get low prices,

Support for Restored Competition

efficiency, and a lively economy in which you will have a job, be able to buy what you want at low prices, and have the chance to live the kind of life you want, unhampered by the dictatorships of bureaucracies or of monopolies. That is the antimonopolist's claim.

As was the case with *laissez faire*, there is much more that might be said on the antimonopoly point of view. So a large part of your class might constitute themselves specialists on this approach and read arguments for it and criticisms of it. A few important references are listed below. More material is sure to be available in the form of newspaper or magazine articles or books or pamphlets or other current sources.

When class members are ready to share ideas, they might serve as a panel appearing before the group as a whole and explain the approach to free enterprise that emphasizes clearing away obstacles to free competition in a free market. Listen to them carefully and you may see more strengths or more weaknesses in this proposed road to a better economy.

Continue your *Chart of Economic Proposals*. Fill it in carefully, for you have an opportunity to make comparisons and contrasts of ideas. Incidentally if a description of a proposal doesn't give you evidence on some topic, like psychology or planning, feel free to leave blanks, or to look for more evidence.

You are ready now to match against each other the views represented by Pete and by Bill and compare their validity. It must be obvious to you that they are aiming at much the same goal in the long run, but that they differ as to the intermediate steps that are necessary. But you must still suspend your judgment while you wait for the other fellows to state their cases. You will find that they, too, are striving for organizations which they believe will give steady, high-level employment,

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abundant production, efficiency, and low prices. But their proposals for achieving these things differ greatly from those you have seen.

REFERENCES

The Bottlenecks of Business, by Thurman Arnold. New York: Reynal & Hitchcock, Inc., 1940.

An authoritative statement of the need for enforcing antitrust laws by an enemy of monopolistic practices who was for a considerable period in charge of the prosecution of monopolies for the federal government. A readable book with many illustrative anecdotes.

Temporary National Economic Committee (TNEC) Monographs, by various economists. Government Printing Office.

The TNEC Monographs are one result of a government investigation of concentration of economic power. They are the documented story of monopolistic practices in the United States. Students might refer to them for special information and should at least become familiar with what they are like. If one lacks time or the resources to study the various detailed analyses, the *Final Report* provides an excellent summary. *The Concentration of Economic Power*, by David Lynch, published by the Columbia University Press, 1946, is a study of all the findings of TNEC.

Monopoly and the New Deal, by Thurman Arnold, L. Lyon, M. C. Krueger. University of Chicago Round Table, University of Chicago Press, Nov. 27, 1938.

A discussion of monopoly in American life. Through comments and rejoinders, issues are brought out. The pamphlet is a reproduction of a broadcast in the Round Table series. Fairly easy to follow.



LEADERSHIP BY BUSINESS

Chapter 9

THE CASE FOR LEADERSHIP BY BUSINESS

AND you're the fellow who accuses Pete of not being realistic," Mac said, after Bill had made his case against monopoly. "Ho hum. The pot calls the kettle black."

"What do you mean?" said Bill. "You're not going to claim that we've got free and open competition as Pete pictures it, are you?"

"No."

"You're not going to deny that prices have been 'sticky'?"

"They have in general, but you're so anxious for government antitrust enforcement that you forget the companies that do marvels in reducing prices and increasing production. Henry Ford—the whole auto industry, for instance. And they do it voluntarily without government threats. Bigness doesn't have to mean monopoly. General Motors is about as big as you can imagine; but it competes with other companies. It even encourages its own branches to compete with each other."



*Cooperative
planning
by businessmen*

"You're not going to claim we've got a free market where these 'natural' laws of Pete's work like a dream, are you?"

"No."

"Well, then, how am I unrealistic?"

"Almost every time you opened your mouth you said that the antitrust laws didn't work. You kept showing that business got bigger and bigger in spite of the trust busters. And before you spoke, Pete showed that year after year the American economic system produced more, and the American standard of living went up."

"Well?"

"Fact one: antitrust laws haven't stopped business from becoming a big mass-production, mass-distribution proposition. Fact two: the production and distribution record of big business has been tremendous, maybe *because* it hasn't been busted up and because it's a marvel of efficiency. In the face of those two facts, the only suggestion you have for us is that we enforce these laws, make little businesses out of big ones. And that's supposed to give us efficiency and high production and low prices! That policy alone couldn't do what you wanted it to. Instead, it would wreck the mass production of large-scale industry. It would wreck distribution agencies, like big stores and mail-order houses which are organized for efficiency. If that isn't crazy talk, I don't know what is."

"Looks as if Mac has the floor," said Doc. "Go on, Mac. More light, less heat."

"Let's use our heads," resumed Mac. "Whether we like it or not, we're not living in the good old days. We're not living in 1776 with Adam Smith, the laissez-faire economist. We don't operate through little businesses producing a few simple products and most people raising their own food and making their own equipment on farms. We're not even liv-

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ing in the good old days of the gay nineties when it was an open question whether we should try to break up the businesses that were getting bigger as they tried to use the advantages of mass production and organization. We're living today! A capitalist today is different from the little fellow Adam Smith wrote about in 1776, just as an American today is different from the American whom Jefferson had in mind when he wrote the Declaration of Independence. Free enterprise today is different from the free enterprise of 'the good old days.'

"We've got industries, some large, some small, which during the war were able to outproduce the whole Axis by two to one. Incidentally Bill would have us think all industry is big. Actually over 70 per cent of all manufacturing labor works in shops employing fewer than 500 men.

"The men at the head of our corporations aren't pirates and robber barons, as some have called them. They're reasonable and smart men who started with little and built up organizations that give the American people the world's highest standard of living. They've seen wages rise and working hours decrease as industry grew. Are we going to wreck their organizations or are we going to let them *use* their organizations to give us full production and higher living standards?

"Bill says bigness means monopoly and he's against it. I say bigness can give us efficiency and large-scale production and low prices and I'm for it. Remember, big organizations don't have to use monopolistic practices.

"Bill says if we have big organizations which are powers in their fields, we don't have competition. Now, I like competition. It gives a thrill to the game of business. It's not only fun to beat your rivals but it's one of the good ways to get low prices and high production. But making little ones

out of big ones is an expensive way to get competition! And unnecessary.

"I'll admit a lot of businessmen would like to get away from competition, but they have a hard time doing it. Suppose one steel company does get so big that it can run the show in steel; it still has to mind its P's and Q's or it will lose business to the aluminum industry or plastics or some other material. If the railroads weren't regulated at all, they'd still have to keep their fares reasonable or people would shift to travel by air, by bus, or in their own cars. Pretty nearly every product has some substitute that furnishes a sort of competition, and in some cases the competition is mighty sharp. But even if we assume that some industries can get into a monopoly position, we can get competition in other ways than through complete dependence on government trust busting. For instance, by businessmen themselves recognizing that competition is good for the health of the free-enterprise system and for their own businesses. Read the statements of forward-looking business leaders today and you'll find they're recognizing the need to compete, to give small business every opportunity.

"But though I'm all for competition we'd better remember that what we really want is jobs and good incomes and a high standard of living and economic security for people like us. We don't worship competition for its own sake. There's plenty of room for cooperation too. It's efficiency and high production and low prices that we really want management to go all out for, and if businessmen can produce fine products in quantity at low prices, it would be plumb silly to go off on trust-busting crusades against bigness."

"And why should businessmen want to produce huge amounts at low prices?" inquired Bill. "What's to make them want to be efficient, to stop suppressing inventions? What's

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to keep monopoly power from raising prices sky-high? Nothing but competition enforced by law."

"Self-interest, brother. The profit motive. Business can make more money by mass production sold at low prices. Self-interest is the strongest and most dependable human incentive, and we can make it serve human welfare."

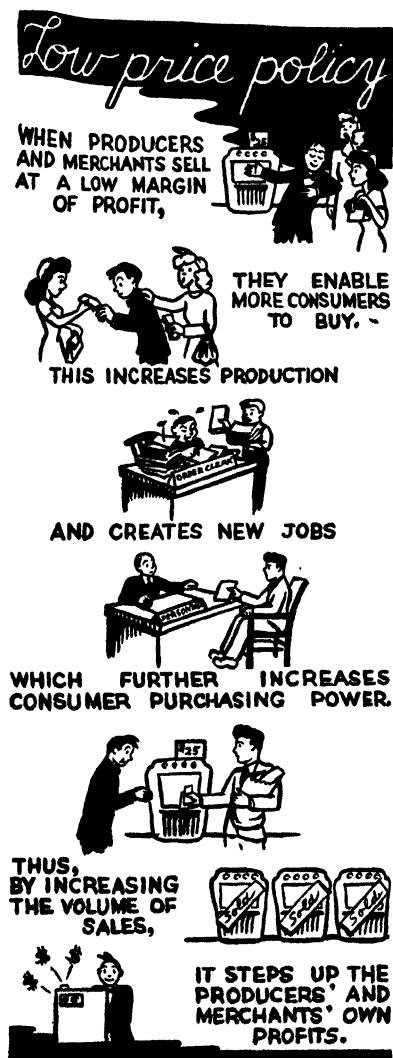
"I don't get it," said Steve and Tom at the same time.

"Suppose you make automobiles. To make a car costs you \$400 and you decide to be a hog and sell at \$600. Pretty nice profit! But you sell only 1,000 cars a year because people can't or won't pay \$600. Your profit is \$200,000. But suppose you sell at \$450. Your profit margin is only \$50. But the public scrambles for the \$450 car, the way they did when Ford entered the market. You sell 20,000 cars instead of 1,000. Your profit margin is \$1,000,000. See the point? Even a cold-blooded, perfect monopoly wouldn't set prices sky-high, because there's lots more money in big sales at low prices than there is in small sales at high ones.

"Best of all, you've hired a lot more people. That pays you too, because money's going back to them which they can spend to buy the cars and other low-priced goods. Low prices and heavy production spell prosperity for all concerned, brothers."

"All right, if that's such a swell arrangement all around, why not plan to have it always?" Tom asked. "Why not have our government plan production and not allow big business to tap off profits like those you are talking about? What we should do is plan our economy and use our equipment to produce goods and distribute them to consumers. Managers of plants could be paid salaries and not allowed to rake off profits so that the ordinary man hasn't income enough to buy the goods his sweat produces."

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"Do you know," said Mac, "you've just supplied me with another reason why businessmen have to get busy on full efficient production and put into effect low-price policies. And why they had better get busy quick with their own economic plans. For there's enough of you fellows favoring a state monopoly on production that unless businessmen get busy and plan together, government is going to do the planning for them. And state planning is fascist and dictatorial.

"Businessmen have to be business managers. Do you see what I mean? They've got to be more like professional men; they've got to be economic statesmen. Managing affairs is their specialty. They are trained at keeping the wheels rolling, determining prices, and so on. What they've got to learn to do more and more is to apply their expertness to long-term thinking, not

just for their own particular businesses but for whole industries or groups of industries. Then they'll get together and plan how to lower prices, boost production, keep more men employed."

"So you're a planner too," said Pete. "I guess I'm the last of the individualists and freedom lovers."

Mac was thoughtful a minute. Then he said, "Oh, I don't know, Pete. I don't see why you figure people lose any freedom that counts just because they sit down together and use their heads to take care of troubles before they get too big. In the long look businessmen have got to seek their own welfare through serving the common welfare."

"That's sentimental hokum," interrupted Pete again. "We work for ourselves and ourselves alone. I said that awhile back and I'll say it again. We work for our own pockets. We're not particularly aiming to serve anybody but ourselves. That's the nature of the human animal. Expecting everybody to work for the common welfare is dreamer's talk. I didn't expect it from a hardheaded fellow like you, Mac."

"I don't see that at all," Mac protested. "The fact that I work for my own self-interest doesn't have to mean I can't look ahead. It's hardheaded to have foresight. When I get back from this army and start a business of my own, I'll want it to give me a profit—sure! But not just for a month or a year. I want it to be going strong when I'm an old man."

"Furthermore, that's the way modern businessmen look at it. They know business has to lead and plan, not trust in natural laws and invisible hands. They know that if they don't get together and make self-interest serve the common welfare it's curtains for the system of free enterprise, and we'll move into socialism. The people have had a taste of

what our production and distribution system can do to make life better, and they aren't going to let selfish businessmen stand in the way. People won't stop to realize that we can't have liberty if the state has a monopoly on economic power."

Steve turned to Bill and Tom. He said, "I guess Mac's like Pete; he's another one of those fellows who think any action, even by a democratic government, is wicked and against liberty. He thinks that all we have to do is let business compete if it wants to, or plan if it wants to—anyway make sure business is allowed to run the show."

"I didn't say anything of the kind," rejoined Mac. "I simply don't want *government* to run the whole show. I want the important business decisions to be made by hardheaded businessmen, not muddle-headed bureaucrats. I say that a business system—and that includes big corporations, Bill—can be made to work well, so that we have good-paying jobs and lots to buy at fair prices. I'm not one of these fellows who say there shouldn't be *any* government regulation. I think there is plenty of good government regulation today, and I'm for most of it."

"Such as—?" said Pete skeptically. "I'm not sure there's any such thing as *good* government regulation."

"Such as pure food and drug regulation," said Mac, "and laws setting minimum wages, and laws on the hours women and children can work, and laws against sweatshop labor, and regulation of utility and railroad rates, and social security legislation, and laws guaranteeing bank deposits. Pete, there's no use saying the government shouldn't step in to set the rules for a fair game—because it should and it has and it will. The government's going to keep on putting the finger on labor racketeers and frisky businessmen just as it puts the finger on the gangsters. It's necessary for the government

to regulate for fair competition and against unfair competition. It's the government's job to give everybody a fair chance in the game of economics. But it isn't the government's job to play the game, after it lays down the rules! That's where I don't go along with the people like Steve who want government and business both to plan or the people like Tom who want a state monopoly in planning our economic life."

Tom asked, "You mean the government should make rules but do nothing at all about operating public enterprises? Turn them over to business? Give them back to the Indians?"

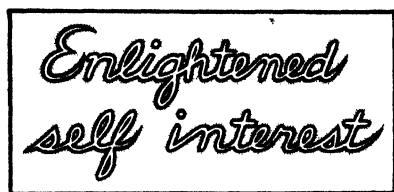
"No, I even think there are some things that can be done better by government than by private industry. For instance I don't want private companies running the public schools or charging admission to the parks or handling the mail or hiring soldiers and sailors. I'm even for new government projects like the TVA—if they're doing a job private industry can't do on a profit basis. That's the test. But I'm not for an economy where bureaucrats can keep on making mistakes on the house—mistakes that could bankrupt a businessman if he made them. I'm not for government handouts. I'm not for government invading the territory of free enterprise.

"But that's aside from my main point. I want to keep free enterprise. But if we're going to keep it, business managers have got to be encouraged and allowed to do the things they can do. You can depend on business to do what has to be done for jobs, full production, and low-price policies. A combination of self-interest and social-mindedness will ensure that. But give them a chance to produce! Tremendous and fast-moving distribution—there's the medicine for our economic pains. Let them keep a reasonable profit margin—not

tax them to death. If the people save and invest, they'll own the factories and the stores. If government taxes and invests, it will own them."

Steve put in, "I thought government was of, by, and for the people, not some Frankenstein's monster."

Pete came to Mac's defense. "Let it do the planning, as Tom wants, or let it stay on a spending drunk, as Steve wants, and it will turn out to be Frankenstein's monster, all right."



Mac resumed, "But you've got me off my real point again. I don't pretend we'll get a perfect system through automatic, natural laws, as Pete does. I'm saying we need *planning*, real plan-

ning. Everybody has a place in it. But businessmen are the keymen who have to make the plans work and they're the experts on managing practical affairs. That's why they ought to make a special effort to organize sensible long-range plans. Every businessman ought to see that he's more than just the manager of his own store or factory. He's one of the caretakers of the American economy, and he ought to feel responsible for some real statesmanship."

"Let's add it all up," said Doc. "You think that there are better ways than trust busting to get what we want. What we want, you say, is jobs and good incomes and a high standard of living and economic security. And while you think some government regulation is needed to keep order and give people a fair chance, you're not going to rely on government to be the spark plug. You're going to rely on the vision and the self-interest of business management in a free-enterprise system to give us the jobs and goods we want."

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"You believe that our economy is so complex that there has to be some cooperation and planning in it, as well as competition. You don't believe that *laissez faire* is possible any more. You reject government planning as tyrannical, so you're not looking there for management.

"So where do you turn? To leadership by business. You want to see industrialists act like statesmen and discipline themselves and organize for public service. That's to their own interest in the long run, you say. They would keep their profits at a reasonable level and do all they could to pitch production at a high level, and pass on reduced costs to the producer and the distributor in the form of lower prices to the consumer. They would plan together for the future. That is your platform, Mac?"

"That's the road," said Mac, "if we want freedom *and* opportunity."

Explain what Mac means when he says,

"Bigness doesn't have to mean monopoly."

"Free enterprise today is different from the free enterprise of the 'good old days.'"

"We can get competition in other ways than through government trust busting."

"Self-interest is the strongest and most dependable human incentive and we can make it serve human welfare."

"Unless businessmen get busy and plan together, government is going to do the planning for them."

"Businessmen have got to be business managers."

"I think there is plenty of good government regulation today, and I'm for most of it."

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"But it isn't the government's job to play the game after it lays down the rules."

On what do Pete and Mac differ?

On what do Bill and Mac differ?

On what do you think Steve and Tom might differ from Mac?

Where do *you* agree or disagree with Mac?

How does the kind of action Mac is arguing for square up with your conception of democracy? Do you accept his idea that, if economic planning is necessary, it should be done by businessmen, who are presumably a small body of experts in this sort of thing rather than by government, which presumably represents all the people? There are two questions here again, you see: (1) Which is likelier to be efficient? (2) Which is more truly *democratic*?

Chapter 10

SUPPORT FOR LEADERSHIP BY BUSINESS

WHY LEADERSHIP BY BUSINESS IS NECESSARY

MAC is representative of the thinking of many businessmen and other Americans. These people do not approve much more extension of government operations. But they are not interested in being simply carping critics of government. They feel that conditions have changed with the years and that new needs have arisen. And they think that free enterprise, if it is to avoid crippling restriction, must itself take positive steps to meet these needs. They feel that, if government is not to take increased responsibility for growing production, high levels of employment, high standards of living, and social security, then free enterprise must take the social responsibility for working toward these goals. When advocates of leadership by business indicate this, they add that they do not mean to exclude everyone except businessmen from the planning; they want also the contributions of other groups. But they do feel that businessmen, trained and experienced in the science of management, are uniquely well equipped for the task.

Again in this chapter, we shall support a case, this time the case for business leadership, made by Mac. We shall leave the way open for discussion, agreement, and disagreement by the reader. This proposed way to get permanent prosperity

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has been variously called a "people's capitalism" or "business planning" or "modern industry's program," or "management by business."

The modern free-enterprise system, say the advocates of management by business, must work together as a coordinated whole. Businessmen must plan, must think together, if America is to employ 8 to 10 million more people than have ever been employed before in peacetime.

This is different, you see, from Pete's belief in *laissez faire*, that the automatic working of natural forces will take care of our economy. Perhaps it is well for us to ask, "Why is it that so many practical modern business managers are no longer willing to rely on the natural economic adjustments of eighteenth- and nineteenth-century economic theory?" Why not adopt Pete's *laissez-faire* approach? Why, instead, work toward deliberate policy based on economic research?

What follows is the response of those who place great confidence in business leadership.

THE DECLINE OF LAISSEZ FAIRE—THROUGH BUSINESS CONSOLIDATION

You can't use old economic rules for a new and different economic game. Free capitalistic enterprise has changed markedly since the old days when Adam Smith traveled through the British Isles in a stagecoach.

In this corporate age, business has moved toward consolidation and away from small competing units, although there are still very many small businesses. Big businesses have much to say about the prices they ask for products. Little business cooperating or organized in trade associations can administer prices, too. In other words, today we live in a system in

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which business can have an important voice in setting prices. Prices are no longer wholly regulated by automatic controls of supply and demand. (This argument, you remember, was developed at greater length in Chap. 8.)

THE DECLINE OF LAISSEZ FAIRE—THROUGH LABOR CONSOLIDATION

In labor, too, consolidation has replaced individual competition, although most workers are still not unionized. Among union workers, instead of each person's bargaining individually for the highest wage he can get, workers collectively make agreements as to wages, hours, and working conditions. When an employer has a contract with workers for work at a definite rate, wages don't go up or down very much. The prices of goods stay more steady too, for the price of a product depends in part upon the wages paid workers who make or sell it. So agreements with workers, like business control over prices, also result in industrial prices which do not go up or down so readily.

THE DECLINE OF LAISSEZ FAIRE—THROUGH ORGANIZATION OF AGRICULTURE

Perhaps agricultural prices are still more subject to the "natural and automatic" functioning of the law of supply and demand than any other major type of goods. But the U.S. Department of Agriculture, through its AAA, with its provisions for an "ever normal granary," parity prices, crop loans, acreage allotments, etc., has more and more sought to adjust production of each major crop on a planned basis. The basic purpose has been to maintain a stable, profit-yielding price and avoid the sharp fluctuations of "natural" price

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adjustments. Some prices have virtually been "pegged" at a set level by government loans or "support" prices. This search for price stability is an exact parallel of the management of prices by industry and the bargaining of labor unions for long-term wage contracts.

THE DECLINE OF LAISSEZ FAIRE—THROUGH SOCIAL WELFARE ACTIVITIES

Furthermore, the rôle of government has been modified; instead of doing little in the realm of economics, except to protect property rights, government now bases much action on the idea of "social welfare." It brings relief to the unemployed, adjusts prices to the farmer, guarantees to the worker the right to collective bargaining, and regulates trade practices among businessmen. Long before the activities of the New Deal, government used tariffs to keep out foreign products. This interfered with the automatic operations of world trade. Government also uses taxes not only to raise money for its expenses but also to get economic results. For example, it taxes colored margarine to block natural competition with butter. Through its Department of Commerce it does much research to help business. Through its Department of Agriculture it helps farmers. Through the Federal Reserve System it tries to influence borrowing money, to avoid bank failures, and to keep business on an even keel instead of plunging up and down.

THE AUTOMATIC NATURAL LAWS DO NOT WORK

All the above adds up to a conclusion that the old "automatic and natural" regulators of our economy are no longer operating in a high degree. Consolidation of industry, of

labor, and of agriculture, and the growth of the welfare state have created a situation in which the "natural law" of supply and demand is no longer permitted to operate automatically in all cases. Prices no longer rise and fall according to mechanical rules. We no longer have a completely free market. Increasingly we have *administered* prices. Since conditions have changed, the *laissez-faire* rules no longer completely hold. Except in the hearts of a few, *laissez faire* is dead. Whether we like it or not, the old automatic "natural laws" do not apply completely enough to be sufficient as the sole regulator of our economy.

IS TRUST BUSTING AN ANSWER?

Can we restore the automatic working of the economy through antitrust laws which restore competition? Some advocate strict enforcement of laws to prevent unregulated monopoly. Mac has stated some of the reasons why other business planners think this undesirable. Antitrust laws haven't stopped business from becoming a big mass-production, mass-distribution undertaking. The production record of big business has been tremendous, as Pete's statistics suggested. Trust busting may jeopardize our magnificent production apparatus, many business leaders believe. They would prefer reform by businessmen to heavy reliance on laws.

What aspects of our history do the advocates of business leadership stress? They point out that *laissez faire* today is different from that of the "good old days." In the stress are there any aspects of American development which are "de-emphasized"? What thinking can you now do on an important question in history, "What is historically true?"

LOW-PRICE POLICY INSTEAD OF INDISCRIMINATE TRUST BUSTING

Like the advocates of restoring competition, the advocates of leadership by business believe that low prices are important. But many feel that a low-price policy can be achieved without destructive trust busting. They have been much impressed by groups like the Brookings Institution which stress high production through low prices. This point of view is developed in its *Income and Economic Progress* and *Price Making in a Democracy*. The Brookings' studies call for business itself to reduce prices, and they give some evidence that industry can and will do the trick.

THE IMPORTANCE OF LOW PRICES

Why are low prices important? Everlastingly Brookings hammers home that people must be able to buy back the goods and services which the economy can produce. If the people can't buy back, production must slow up and the economy falters. As production grows, the buying power of the consumer must grow.

Higher wages can't do the trick, because higher wages are secured primarily through collective action by unions and reach only a small part of the people. Lower prices, on the other hand, can be enjoyed by all, including people who are not wage earners. Low prices invigorate the whole economy. The increased sales resulting from low prices mean mass production and mass production means higher profits. Therefore, it is to the self-interest of industry to cut prices to the bone. At the same time, the common welfare will be served.

ADMINISTERED PRICES AND MONOPOLISTIC COMPETITION

If we are to be realistic about prices, the Brookings Institution tells us in its recent publication, *Price Making in a Democracy*, we must recognize that there are three ways of determining prices. One is automatic price making in which "no individual or agency assumes any particular responsibility for them." This is the procedure of a vanished *laissez faire*. A second is authoritarian price making in which public control—government—undertakes to direct the course of prices as part of a planned economy. This is the procedure of the collectivist state, which plans its economy. A third way of price making is administered prices, "these to be found in situations in which the seller is a sufficiently important factor in the market and has sufficient control over production resources to make it possible for him to adopt and carry out a price and production policy."

Nourse goes on to say in his *Price Making in a Democracy* that this last is the way of determining prices which is actually used in American industry today. "In spite of remnants of automatic price-making and some intrusion of authoritarian price-making, our system is largely in the hands of private businessmen, with considerable centralization of control over both prices and the productive operation related to them. It is a system of 'administered prices' or 'monopolistic competition,' whether among few or among many competitors."

Recognizing that "administered prices" are a fact, regardless of what the shocked exponents of *laissez faire* may think of this deviation from "natural laws," *Price Making in a Democracy* calls for voluntary lowering of prices. Since prosperity for the nation must be cooperatively engineered,

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industrialists guiding the destinies of our powerful mass-production businesses must work together.

Again we meet the problem of what makes human beings behave as they do. An emphasis on intelligent self-interest is supplemented by an emphasis on long-range foresight in serving the common good.

Thinking of the psychological beliefs that underlie this school of thought, you may want to turn back to Mac. His discussion supplies many insights into his conception of why people act as they do.

How does Mac's conception of what makes human beings "tick" differ from Pete's? How does it jibe with what you have learned by reading or by observing people?

THE STATE ATTEMPTS TO MEET PROBLEMS

If *laissez faire* won't work, if trust busting is undesirable, why not substitute government planning? Why depend on industrialists to administer prices, to lead the economy? To see why business leadership rejects the state as the basic regulator, let us look at fundamental problems of modern times—uneven distribution of income and depressions.

Our society has been marked by two persisting problems, the modern business planner readily admits. For one thing, the fruits of technical progress have been by no means shared equally. Although the American system does not uphold complete equality of income, because people differ greatly in the contributions their work makes, yet the failure of many even to approximate the "American standard of living" has been disturbing. Even in 1929, 42 per cent of the American families had incomes of less than \$1,500, according to Brookings' study *America's Capacity to Consume*. Still more

important, from the point of view of a smooth-functioning economy, American economic life has been marked by recurrent depressions in which men, money, and materials have been idle.

To mitigate both these difficulties, the state has stepped in with economic programs and relief measures.

The greatest decline in the history of American capitalism was the depression that began in 1929. Throughout the thirties, despite extensive and expensive government experimentation (or, some would say, *because* of it) there was incomplete recovery. Yet in answer to depression conditions, America had embarked on the greatest program of governmental expansion and intervention into the economy this country had ever known.

The Threat of Excessive State Intervention. Opponents of statism believe that in trying to solve the problems of the free-enterprise system, government-minded people were in danger of throwing out the baby with the bath. Many business leaders have recognized that if they didn't meet the challenge of the time, the political state would inevitably try to do so. Mass unemployment would be an invitation to the bureaucratic state to take over. This, they feared, would mean the loss of a system which undoubtedly had imperfections but which at the same time was one of the seven wonders of the world in production ability and increase in living standards. It would mean the loss of liberty.

"Why not accept our social responsibility then?" argued forward-looking businessmen. "Why strive to 'get back' to a *laissez faire* which is largely theoretical? Why use mere unconstructive criticism of those who are trying to plan another way?"

Consequently certain business groups have proposed what

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has been termed a "people's capitalism," "business planning," or "industry's program for a better America." It is their constructive plan for a modern capitalist economy.

One must not make the mistake of saying simply that "business" is making these proposals. For, like all large groups, businessmen are divided into subgroups, and several of their key agencies are backing proposals that differ somewhat. Some lean more toward the traditional *laissez faire* than others. Some lean more toward an economy planned by business.

Nevertheless, many industrialists and commercial leaders are in substantial agreement on certain basic points. We shall survey these areas of agreement first.

PRINCIPLES SUBSTANTIALLY AGREED UPON

Business and Labor Must Work Together. Advocates of industry's program believe that management and labor, far from fighting each other tooth and nail, should recognize their common interest in a free-enterprise system marked by job opportunity and rising production, and cooperate to improve it. Rejecting the idea of the "class struggle," both groups must recognize that it is to their interest to keep the productive machinery going, to achieve greater stability. Since strikes and lockouts are interferences with full production and therefore hurt all, they must be avoided whenever possible. And they can often be avoided if, meeting together, the two groups mark out areas of agreement and arbitrate differences. The labor-management committees used so extensively during the war were a good illustration. Labor's suggestions were used to increase production and obtain better working conditions.

This is the kind of society, say those who call for economic

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management by business, in which people must sit down around a table and hammer at their differences, rather than at each other. There's a need for learning to work together, to cooperate on practical issues. Since we're all in the same boat, it's to our best interests to pull together.

That some labor leaders accept this principle is indicated in a statement by the president of the American Federation of Labor as quoted from *Price Making in a Democracy*:

The American Federation of Labor supports our American capitalistic system and free enterprise (as the labor men wished to call the system) just as vigorously as we support trade-unions and the right to organize and bargain collectively. We regard both capitalism and trade-unions as essential factors in the maintenance and perpetuation of our democratic form of government.

Labor, as well as capital, will support this way, both because the great majority of workers believe in the essential freedom of enterprise and because labor would rather bargain with a private employer than with bureaucrats. The bureaucrat has jails.

The kind of businessman who is attracted to the program of the people's capitalism recognizes this need for cooperation. He knows that strikes and lockouts can shatter its delicate fabric. So he calls for labor policies that establish the responsibilities of both labor and management. His great responsibility in an interdependent economy has sobered him. He knows that the times call for vision and statesmanship, for business management and cooperation, rather than socially careless operation.

Business and Government Must Work Together. The same principle holds for relations between business and gov-

ernment. Both forces have to come together. This is true even though businessmen believe that in the thirties government went too far. As Eric Johnston says in *America Unlimited*, "Bureaucratic rule makers had a field day of it, and soon business found itself fenced in by restrictions, baited in all seasons, and all but outlawed." But he adds,

Business cannot save itself from a species of persecution and ultimate obliteration unless it meets the forces of social change halfway. . . .

The main count against business is that it was essentially negative in its public attitudes and pronouncements. It ignored changed conditions. It criticized without offering constructive suggestions.

One area of agreement among enlightened businessmen and public-minded government officials is that America has and wants neither *laissez faire* nor socialism. There is a midway point between those who, in the name of *laissez faire*, oppose unionism as well as any government activity and those who, in the name of socialism, call for all-out economic planning by government.

Consequently many businessmen today support the general principles of governmental acts that businessmen would have fought aggressively in the nineteenth century. Such acts as the Wagner Act, giving labor the right of collective bargaining, and the Security and Exchange legislation intended to control stock-market speculation, are often singled out for approval in principle, though not necessarily in detail. Frequently modern business leaders praise New Deal laws after they are a few years old, although the majority of them attacked its methods, administration, and "directives."

In return for their recognition of the expanded rôle of

government they expect government to be equally reasonable. They ask for stability. New laws are unsettling, they feel. Administrative agencies make decisions arbitrarily. They asked that corporations be allowed ample reserve money for postwar conversion to peace production. Taxing away these reserves, they said, would be draining the lifeblood of capitalism. If capital is going to take risks, it must be allowed rewards in the form of profits. If new savings are taxed away, private enterprise will not have funds for investment. Approvingly, modern business quotes Sumner Slichter, head of the Research Advisory Board of the Committee for Economic Development.

The tax history of the United States since 1932 makes sensational reading. One might almost suspect that the laws had been written by a communist or fifth columnist for the purpose of making private enterprise unworkable.

Push further the thinking you began in the preceding chapter on the conception that business leadership has of government. It is important to this whole point of view. Therefore you should understand what it is thought government should and should not do in economic affairs in this democracy.

The National Association of Manufacturers, which represents a conservative point of view among the advocates of business leadership, summed up the general principles in a nation-wide advertisement:

Right now we have the greatest productive capacity in all history. Much of it was built for war—and will have to be rebuilt for peace.

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In rebuilding it, however, we must take steps to make sure we will be able to *buy* all the many things that our factories and farms can produce.

And that can be done. Not through government hand-outs—which result only in more and more debt. But by using our productive capacity to provide us with more for our money in the things we buy, so that we can buy *more*—and thus create *more* jobs and *more* earnings for all.

This is the “process of prosperity.” Indeed, by making full use of this country’s limitless energy and ambition, we can help lead the world into an era of peace and plenty greater than any yet seen.

Two things are necessary to realize this opportunity. One is a liberal, forward-thinking policy on the part of business. The other is public cooperation.

Business is pledged to do its part—first, by increasing the opportunities for all to *earn* and, second, by increasing the opportunities for all to *buy*.

To increase the opportunities for all to earn, business pledges a just and enlightened wage policy, and the opening of every possible avenue of advancement for the worker.

It proposes to proceed at the earliest possible moment with the starting of new ventures and the expansion of old ones in order to provide more jobs for more people—including returning servicemen and demobilized war workers.

It proposes to put into workers’ hands the most efficient tools available—so that a worker, by increasing his production, may add still further to his earnings.

To increase the opportunities for all to buy, business proposes to make full use of the technological “know-

how" it has accumulated during the war to put on the market the finest products that can be made, at the lowest prices for which they can be sold.

It proposes to seek, through unending study and research in the fields of production and distribution, every possible means for lowering prices still further over the years, so that more of the good things of life can be enjoyed by more and more of the people.

It proposes to encourage full and free competition to avoid restraint of trade and so assure better and better values.

This is business's program for the future. To bring it about as quickly as possible will require your help. For its accomplishment will need legislative action—action that you can encourage. Postwar tax policies that leave sufficient funds for expansion. Laws that clearly prevent unregulated monopoly. Labor policies that establish the responsibilities of both labor *and* management. And business operation under *law* instead of by unpredictable "directive."

EMPHASES OF GROUPS DIFFER

In this new school of business thought, there are many technical economic proposals which differ, naturally, in emphasis. The Brookings Institution, for instance, emphasizes low-price policies and full production as the answer to our economic dilemmas. The Committee for Economic Development emphasizes planning by businessmen for an expanded volume of business. The Congress of American Industry emphasizes the importance of incentive.

There are some questions on which there is by no means full agreement. Particularly controversial are questions on

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what kind of competition is desirable and exactly what planning means in practical terms.

What Kind of Competition? The necessity of cooperation, coordination, and collaboration as socially minded business managers work together for human welfare may mean less wide-open competition. As Nourse puts it, in *Price Making in a Democracy*,

Competition—struggle—is not something demanded for its own sake, either by the individual or by society. What is wanted is the ends which competition is supposed to promote. The individual desires that quality and degree of competition which will permit him the greatest opportunity for self-expression and still yield him the maximum of immediate well-being and long-run security. Society, like the individual, wants results. . . .

The goals of traditional competitive business must be served; it is not necessary—not indeed possible—that they be served by methods that in outward form preserve the aspect that we have been accustomed to describe as competition. Instead of personal struggle, there must be economic statesmanship at the centers of control which are inevitably thrust into being by the development of our technological processes.

Yet business will think long and seriously before it adopts any collaboration or planning that weakens competition. For instance, Eric Johnston, former president of the United States Chamber of Commerce, sounds like a modern trust buster when he says,

We cannot retain the advantages of a free economy without accepting the hazards of all-out competition. . . . And when I say competition I mean competition.

Not the token competition that manages to evade the antitrust laws by the skin of its sharp teeth. Not the legalistic competition where one or two companies rule an entire industry behind closed economic gates but somehow live up to the letter of the law. I mean competition that is free in its spirit no less than in its outward forms.

We cannot enjoy the benefits of free enterprise but evade its challenges and its penalties.

As the automobile industry has proven, bigness and monopoly are not necessarily synonymous. That fact is the key to the whole riddle. There have been monopolistic practices by big companies and by a host of small ones. Great size, it is true, has offered exceptional temptations and opportunities for monopoly practices, but only a few have succumbed to the temptations. In any case, it is the right of the consuming public to regulate the issue through appropriate legislation and by all other means at its disposal. It is to the larger interests of business itself that this right be exercised to the full.

At another point Johnston says,

How can any American businessman hope to rally the American people for free enterprise against government domination if he is himself trying to practice domination in some field of endeavor? Can he not see that the people may prefer domination by a government which they can at least hope to control through election? Can he not see that monopolistic capitalism leads right to the capitalism of the bureaucrats?

SOME QUESTIONS FACING BUSINESS PLANNERS

How Much Planning by Business? One matter on which there is some disagreement is exactly what "planning" means. A few thinkers tend toward a planned economy managed by

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business and utilizing what we learned from centralized, co-ordinated planning during wartime. But the larger group calls for business managers to consult, think, and plan together in communities and in particular industries. The latter group rejects over-all economic planning under centralized direction, for it believes thousands of plans by firms and communities superior to one master plan for production.

To most advocates of leadership by business, planning means thinking together by business in communities and in industries. Such decentralized planning is one of the activities sponsored by the Committee for Economic Development. Financed by business and encouraged by the Department of Commerce, the CED stimulates businessmen to explore the needs of their communities.

This decentralized planning is apparently the kind which Eric Johnston, when he was president of the United States Chamber of Commerce, endorsed,

Intelligent and earnest planning in a practical rather than doctrinaire spirit on the part of management, labor, agriculture, and government is essential. Each of these elements in our society has a contribution to make; none must be excluded from the process in deference to theory or prejudice; their respective contributions must be brought into sensible alignment.

It is not planning that some of us resent. What we object to is the dismal, beaten, fatalistic state of mind in which much of the planning is undertaken.

The superstition that business is opposed to planning as such is nonsensical. It is only opposed to the kind of unwieldy, bureaucratic, theoretical planning which jams the flow of economic progress. Anyone who has ever sat in on a production or marketing conference knows that planning is second nature to American business.

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We have at our disposal an immense capacity for the production of new wealth and should begin now to plan for its fullest utilization.

Important in the approach of business leadership is economic thought. You should understand clearly the none-too-easy matter of why this school of thought believes *laissez faire* or classical economics to be an inadequate description of things as they are. You should understand the rôle of pricing and planning in economics.

Why do some economists and business groups sometimes talk in terms of *laissez faire* and sometimes not? What are some possible reasons? Why is it that some economic thinking by businessmen seems to fall between two positions: the traditional system and the concept of business leadership?

A PLANNING PROGRAM IN ACTION

If its ideas are to have any significance, business cannot rest with merely asserting that it *should* plan. It must build an organization for coordinated planning, and it must strive to get its plans translated into action.

Several of the permanent organizations of businessmen, such as the United States Chamber of Commerce and the National Association of Manufacturers, have thrown their resources into this job. You can easily get their statements of policy and accounts of their work. One organization, the Committee for Economic Development, has been created for the express purpose of stimulating planning and planned action. A look at the organization and activity of this committee will

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show the general direction which business planning is taking—though this does not mean that all business groups are following precisely the same lines.

COMMITTEE FOR ECONOMIC DEVELOPMENT

This discussion of the CED leans heavily upon a summary by Paul G. Hoffman, chairman of the Committee, in the *Library Journal*, August, 1944.

The Committee was organized in 1942, when many businessmen feared that the postwar period was certain to bring the greatest depression in the history of the world. Its primary concern was with one question: In 1940 there had been about 46 million jobs; after the war there would need to be about 55 to 58 million; how could the extra 9 to 12 million be provided?

The Committee saw that jobs were a by-product rather than the real problem; for if the only concern was the *number* of jobs, any number could be created by subdividing existing work. No, the real problem was to step up total output by 30 to 45 per cent.

Believing that the new production should be secured predominately by private endeavor—and therefore must be planned for by the enterprisers—CED was built upon the co-operation of businessmen from every part of the land. Leading in its organization were such men as Paul G. Hoffman, president of the Studebaker Corporation, who became chairman.

The Committee is composed of a board of 26 trustees, 12 regional chairmen, approximately 100 district chairmen, and more than 1,700 community chairmen. It is independent, financed by contributions from some 40,000 firms, and has

worked in close cooperation with government agencies, especially the Department of Commerce. Its activities are carried out by two major divisions: the Field Development Division and the Research Division.

The Field Development Division. The function of this division is to work in communities. It gathers information in each community, to be combined in a nation-wide fact-finding program. And it carries back to each community information on the facts discovered and policies that are being adopted. In this it is in touch with representatives of firms responsible for more than two-thirds of peacetime production.

If such local activity resulted only in discussion and awareness of what is going on nationally, it would already be valuable. But it goes further, to actual planning by individual firms and communities for expanded postwar production and jobs. For example, one of the CED booklets, *Planning the Future of Your Business*, sets up a six-point planning procedure, advising each enterpriser to

1. Define and place responsibilities for planning
2. Plan product programs
3. Plan marketing and sales programs
4. Determine manufacturing facilities required
5. Estimate employment resources; define jobs; plan employee training
6. Estimate operating plans

In this type of local planning for jobs, the Committee was roughly paralleling a type of activity recommended by the U.S. Department of Commerce and others. For example, in a booklet, *Community Action for Postwar Jobs and Profits*, the U.S. Department of Commerce recommended a five-point plan:

Here are five things businessmen can do in your community:

First is the work pile plan. This is essentially a summary of the new jobs which the corner grocer, the druggist, the lawyer, and other businessmen know they will have to offer. It covers not only employment opportunities, but repair, remodeling, and so on. It is a community summary of opportunities in your community.

Second is a survey of manufacturing opportunities which your community could reasonably expect to attract. While the chamber of commerce or other business organizations in your town will want to call on individual manufacturers for guidance in appraising these opportunities, care should be taken to confine this study to the community level, while urging each individual manufacturer to lay his own plans in cooperation with the Committee for Economic Development.

Third suggestion in this booklet is for communities that had a greatly swollen wartime population. It is a plan whereby businessmen working through their chamber of commerce or other business organizations can make an estimate of the size of the problem the community will face in normal times and take certain definite steps now to prepare to meet that problem when it arises.

The fourth suggestion relating directly to postwar problems is a simple program to urge consumers, retailers, wholesalers, bankers, manufacturers, and businessmen generally to build reserves of ideas and money for the postwar period.

The fifth suggestion is to strengthen present business in your town. Simple, tested plans, based on results obtained in over 460 communities, which cooperated with the Department of Commerce in 1942-1943, are outlined in this book.

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Through such plans, thousands of businesses and committees were readying themselves during the war for conversion to high-level peacetime production. Albert Lea, Minnesota, is one community which, working in cooperation with the Chamber of Commerce, laid its own plans.

Everyone knew that the town's 11 factories were doing a \$50,000,000 volume of business. They knew that the unemployment of depression's 30's had disappeared into the peak of war prosperity. They knew too, that, come peace, this job-giving production would vanish faster than a dog-chased cat if something were not done now to make it stick in the postwar world.

Seeing the problem, the citizens of Albert Lea, Minnesota, did something about it. High-level postwar employment, of course, is the single aim of all community activities. In Albert Lea, this objective was divided into two parts:

- (1) How many persons in your community will want jobs?
- (2) What is the present estimate of jobs which will be available?

However, desirable as this sort of aggressive action is, the Committee for Economic Development and other planning agencies recognize that it is far from sufficient unless supplemented in other ways. For 10 million jobs cannot be created by counting noses or passing resolutions. There must also be an attack upon the fundamental conditions that might stand in the way of full production. And this must be done mainly at the national level. Therefore, the Committee set in action its second division.

The Research Division. The function of this division is to analyze the critical problems of our economy and society as

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a whole and develop recommendations for their solutions. To assure its operation on a statesmanlike level, the division is composed of three sections:

1. A Research Committee composed entirely of businessmen
2. A Research Advisory Board composed of outstanding social scientists which helps the Research Committee plan and conduct studies
3. A full-time Research Staff headed by a distinguished economist

When the Research Committee has decided that some problem, such as what tax program should be adopted, needs research, it employs one or more outstanding authorities in this field. These consultants are given every opportunity to confer with businessmen and scholars, but they are completely independent to write their conclusions as they think best.

The result is likely to be a book-length treatment of the problem. Although it may be published by CED, it does not constitute the Committee's official statement of policy. This will be issued in shorter form by the Research Committee itself and may disagree in some respects with the longer statement, the reasons for any disagreement being given.

Obviously, on such a matter as national tax policy, the Committee is not able to put its recommendations into effect. Its reports can only educate the public, serve as a basis for discussion, and be used as a source of advice for Congressmen and others who are in a position to determine national or state policy.

Neither does the Committee imagine that its reports should be the sole source of guidance to be used by policy makers. Naturally, it believes in its conclusions and hopes they will

be found useful. But CED officials say that they also hope that other groups—labor, consumers, etc.—will think through *their* proposals in similar fashion. For the objective to be planned for is general welfare, not simply the welfare of industry, and in this all the people have a stake. Although each planning group has a moral responsibility to work for the common good, it is to be expected that men will interpret that common good in ways somewhat favorable to their own interests. Therefore the democratic give-and-take of many interested groups has a wholesome influence upon national policy making.

WORKING AT COMMUNITY AND NATIONAL LEVELS

It is worthy of note that through its two-part organization, the Committee is attacking economic planning in two ways:

1. Through decentralized activity, at the level of the community and the individual firm
2. Through centralized headquarters activity, at the level of national policy

No over-all statement of the Committee's conclusions to date is available. One would have to look through many books and pamphlets for the details. But a 12-point platform written by William Benton and published in *Fortune*, October, 1944, is probably a close approximation of its position. The statement has not been officially adopted by the Research Committee, but Mr. Benton was active in the organization, and probably represented its thinking pretty well. The statement is given on the accompanying pages.

A FRAMEWORK FOR THE POSTWAR ECONOMY

I The good of all—the common good—is a means to the enduring happiness of every individual in society and is superior to the economic interest of any private group, not only in war (when the validity of the principle is obvious) but in peace as well

II The privilege and responsibility of every citizen in a democratic society is to share in defining the common good as well as in giving service to it. The economic system is a tool for achieving the common good and in a free society is shaped, maintained, and modified by the free choice of the whole community

III The economic system chosen by the American community is loosely (often too loosely) called the free-enterprise system. This system, when it functions properly, permits the maximum freedom to the individual consistent with the common good. It supports and reinforces political liberty and provides the greatest opportunities for the development of all men and the attainment of their individual as well as their common aspirations.

IV In a democracy there is a place for private enterprise and there is a place for public enterprise, and it is necessary to clarify basic lines of division between them. The area for private enterprise should extend to the limit of the ability of private individuals better to serve the common good. Beyond this limit, government enterprise can better serve that good.

V In that part of the economy where private enterprise can better serve the common good, the people through their government must devise and enforce rules of the game—reasonably stable rules that will encourage private, voluntary enterprise—rules to which government itself will adhere and which government will enforce—rules that intelligent and forward-looking men can understand and under which they can operate for the common and their own good.

VI Essential to a system of free enterprise is a climate in which new, small, and independent business can be conceived and born, can grow and prosper. New, small business is the bulwark of a system of free and private enterprise. If the opportunities for new business are destroyed or otherwise disappear, a system of free enterprise will atrophy.

VII It is in the public interest that business organizations be allowed to grow and become great as the result of useful service to the community. Provided that the power that comes with size is not permitted to stifle competition and is not permitted in other ways to be abused, big business can serve the common good.

VIII To compensate for the weakness of their individual bargaining position, wage earners need the right to combine into organizations for collective bargaining. Provided that the power of these organizations is not permitted to stifle technical progress, or unduly to limit access to jobs, or in other ways to be abused, labor unions can serve the common good.

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IX It is the natural tendency of men with interests in common to organize into groups for their own advantage. Such organizations, not only in business and labor but in agriculture and among veterans and consumers and others, can help their members and the general community to a better understanding of the relation of individual interests to the common interest. Such group organizations can thus be a powerful force in promoting the democratic process. However, should they use their power to further monopolistic practices, cartels, or other special interests that check the rise of the country's standard of living, they can become dangerous. In unnatural combinations with other self-seeking interests, a so-called "pressure group" can pervert the integrity of the legislative process. Such activities may constitute the great political problem of America in the days ahead. All organized groups must subordinate their narrow, selfish interests to the broader common interest. They must voluntarily accept social responsibility or, failing this, their activities must be curbed by the people as a whole in order to preserve a free society for the individual.

X Prolonged and severe depressions, as the result of which millions lose their savings and their jobs, cannot be accepted as natural and irremediable phenomena. The people's elected representatives and the agencies of government are responsible for establishing fiscal, monetary, and other policies that help prevent the fever of inflation and the paralysis of deflation and depression. Constructive policies respecting taxation and public expenditures (including expenditures for public works), intelligent handling of the national debt, and enlightened control over credit and money can greatly retard or prevent excessive swings of the business cycle. Consistent governmental policies that conform to the community's standards of justice, and that are understood by the community, are vital both for developing consumer and business confidence and for maintaining the flow of buying power needed to sustain high levels of employment and productivity.

XI To the extent that the free-enterprise system fails to meet the imperative need for high employment and productivity, the cause of the difficulty must be identified and removed as promptly as possible. While taking steps to expand private employment and needed public employment, the government must do its best to provide for those who are unable to find work, never losing sight of the fact that unemployment benefits are at best but a poor substitute for the opportunity to work and earn a living. The American people recognize that the adjustments which are inevitable in a changing and developing economy often work hardships on individuals. Through their federal government, they have wisely provided in the past, and should continue to provide in the future, a program of social security—unemployment insurance and old-age pensions—for the benefit of those who are unable to work, or if able and willing to work, are for any reason whatever unable to find sufficiently remunerative employment to protect themselves against want. Such individual protection against hazards should be extended as rapidly as practicable.

XII An economic system based on private enterprise, Americans believe, can better serve the common good, not because it enables some men to enrich themselves, but because it develops a high and rapidly rising level of living. It can best insure the American prosperity so vital to world peace. It can provide the maximum economic opportunity for the largest number of individuals of the community, and protect the personal freedom and well-being of the individual from the dangers inherent in too great a concentration of either private or public power.

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What seems to be the philosophy of the new business leadership? In what details, precisely, is it different from that of the traditional business system? Compare, for instance, ideas on the desirability of sharing, co-operation, long-range policies, government activity. What seem to be the basic values that this school of thought is moving toward?

To this group, what seems to be the meaning of the word "planning"? What guarantees can it offer that the plans adopted will be carried out in actual practice?

What do critics from the "right"—Pete for instance—think of this philosophy? What should you guess critics from the "left"—Tom, for instance—would think?

What do *you* think of the 12-point platform which you have just studied? Such a statement is the result of many hours of work; it has no doubt been many times revised and sharpened up in conferences among leading thinkers. Every word and qualifying phrase is used advisedly. Can you read it equally carefully? If you do, are there any details you are especially glad to see, or any with which you disagree?

You will have many things to add to your *Chart of Economic Proposals*. Put them down, trying always to indicate clearly the differences and the similarities. Do not hesitate to leave blank spaces if further research is needed.

Again only a fraction of the available material has been presented on this proposed economic approach. A segment of your class might take up the study of the ideas of those who look to leadership by business and those who criticize the idea. As usual, a selected list of references is presented below. Because the issues under discussion are live, up-to-date issues, there are sure to be pertinent articles in newspapers and magazines. After

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research based on the latest information provided by organizations of businessmen and others, the class might have another opportunity to discuss the point of view.

REFERENCES

America Unlimited, by Eric Johnston. New York: Doubleday & Company, Inc., 1944.

A young businessman's case for leadership by business. He appraises the New Deal, the changes in our modern economy, and takes up such problems as taxation, labor relationships, and international trade. A direct and clear statement.

Big Business in a Democracy, by James Truslow Adams. New York: Charles Scribner's Sons, 1945.

An account of the contributions to society made by big business, presented in large part through a study of one large corporation. A laudatory appraisal of the personal abilities and character of those who manage our big businesses.

Committee for Economic Development publications, by the Committee for Economic Development. Washington, D. C.

A number of CED publications are available. Some are scholarly works on, for instance, taxation, difficult for students to read. Others are popularizations which afford easy reading. Write the CED for a list.

Community Action for Postwar Jobs and Profits, U. S. Department of Commerce. Washington, D. C.: U.S. Government Printing Office, 1942.

An account of the kinds of community action that are profitable. This is a well-organized, pictorial account of what communities can do through decentralized planning.

The Economic System—Today and Tomorrow, by William Benton, Eric Johnston, and Harold Laski. University of Chicago Round Table, University of Chicago, August, 1943.

Through Mr. Benton and Mr. Johnston, the case for business leadership is presented. Mr. Benton has been active with the CED, Mr. Johnston as president of the United States Chamber

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of Commerce. Mr. Laski is a British economist. Not too difficult reading.

Income and Economic Progress, by Harold G. Moulton. Washington, D. C.: The Brookings Institution, 1935.

A classification of outstanding proposals for change. Among these Moulton thinks the most significant is low-price policy sponsored by business leadership in the free-enterprise system. A difficult book to read but a highly important one.

Jobs, Freedom, Opportunity, by the Postwar Committee of the National Association of Manufacturers. National Association of Manufacturers, 1944.

A definition of the nature of the postwar problem and of domestic and external requirements for prosperity. The point of view of business is advanced and the case for our business system, with leadership by businessmen, is advocated. Well organized, not too difficult.

The Managerial Revolution, by James Burnham. New York: The John Day Co., 1941.

The economy is dominated by the few in key positions in an industrial structure. We are going through a managerial revolution in which the few in the key posts can decide on policies and practice. Not too difficult reading. An extreme point of view in business planning.

Price Making in a Democracy, by Edwin G. Nourse. Washington, D. C.: The Brookings Institution, 1944.

A thoroughgoing scholarly study of how prices are made. Low prices and quantity production by business will solve many of our problems, the Brookings book says. Difficult reading on a complex problem.



TWO-FRONT ECONOMY

Chapter 11

THE CASE FOR A TWO-FRONT ECONOMY

THEY turned expectantly to Steve. He took the cue. "I want to look at things from a different angle. It seems to me there's one thing nobody's yet made clear. What's an economic system *for*? It sounds like a simple question, doesn't it? But most people are a long way from knowing the answer, and till you do know, you simply can't think straight about how to go about improving it.

"The old-time kings and lords would have answered the question by saying that the economic system was to make kings and lords rich and powerful. The serfs were supposed to sweat in the fields for their masters' glory, not for their own. That system hung on until the serfs saw a chance to end it. Then one fine morning there weren't any more kings and lords with power over all the people.

"The robber barons, too, were men who thought the economic system was for the exclusive benefit of their privileged group. They stretched chains across the rivers and made river traders pay tribute before they would let boats pass. The traders endured it till they saw their chance to end it. So one fine morning there weren't any chain-stretching robber barons either.



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"Some American industrialists of the nineteenth century thought the economic system was for the benefit of whoever was strong. These new-style robber barons underpaid their workers, gouged their competitors, wasted natural resources, and corrupted legislators and judges. The ordinary folks endured it for a while. And there might have been a fine morning when there wouldn't be any new-style robber barons any more if folks hadn't gone about making changes peacefully by whittling down the power of business to do what it pleased. Ever since that whittling down started, our self-appointed leaders have been yammering about violation of their sacred 'freedom' to run our lives to suit themselves!

"All through the world's history, the people who had the shrewdness or strength to get themselves into positions of power and privilege thought the economic system existed for their benefit. They shrugged off those who were hard up by talking smugly about 'bums and loafers.' But democracy has been taking hold in our thinking and we're getting the idea that the economic system is to serve the ordinary Joe as well as the big shot.

"Yet there are still some who believe that the economic system exists for the pleasure and comfort of a small group of wealthy aristocrats, absentee owners, or business managers who should be allowed to do as they darn well please, regardless of everybody else. They don't quite dare say that in a country that likes this democratic idea, but they act like it whenever an idea comes along that threatens the security of the little group at the top."

"Don't look at me, bud," said Mac, who had advocated leadership by business. "And don't look at the modern businessman. We know the old robber-baron philosophy of do-

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as-you-please-if-you-can-get-away-with-it is dead as a door-nail."

"Maybe he *ought* to look at you and your modern businessman," Tom chipped in. "What your program boils down to is turning the economic works over to businessmen as a group, to run as they please. They're the ones who are supposed to know best; the rest of us—union leaders and farmers and consumer representatives and others—are mentioned incidentally, if at all. Who's going to administer—that's a two-bit word for 'fix'—prices in Mac's economy? Businessmen. Whom do we have to be careful about when we set our taxes or deal with profits? Businessmen. Matter of fact, who's going to do what little planning there will be, under this system? Businessmen. Underneath all of Mac's nice liberal and humanitarian words is a program of business, by business, and for business."

"Not a bit of it," said Mac hotly. "It's to the businessman's self-interest to work for the public interest, and as a powerful, expert, and responsible group of citizens. . . ."

"Gentlemen, gentlemen," said Doc. "You'll have your chance, Tom. A character named Steve has the floor. Hear ye."

"I claim an economic system isn't just to make a few people rich," Steve reasoned. "I claim it's to produce the highest possible standard of living for the people, all the people. Anybody want to fight about it?"

"I say it's to give us freedom," Pete put in.

"That's all right by me," said Steve, "if you recognize that freedom should be for everyone, not just a few, and that one part of the freedom people look for today is freedom from want. To help everyone to freedom, we've got to have jobs, income, and security."

"And rising production," added Mac.

"Right," said Steve. "Now if we want a system that gets results, there has to be a two-front attack on economic problems. One front is business, the other front government. We've got to plan the two so that each one reinforces the other.

"On the business front, we've got to encourage enterprisers and risk takers to go all out in production for peacetime just as they went all out for war production. That make you happy, Mac?"

"Sounds good," said Mac. "But don't hamstring free enterprise with too much regulation."

"It all depends on what you think is too much," said Steve. "This country has been regulating railroad rates since 1887 and I haven't heard much complaint about that. I know there's a lot of argument about the specific rates that are set, but it's not about the basic idea that rates should be set. We don't let monopolies like public utilities charge what they please. And we have laws about hours and wages and working conditions that sound sensible. You said some of these things yourself, Mac.

"What I was starting to say," Steve continued, "is that private enterprise has to go all out in peace as it did in war. Industries have to turn out cars and planes and sewing machines and everything else that private enterprise can produce. That will employ a large part of the people who used to be in war industry or in the armed forces.

"But despite all the talk that's going around about free enterprise as the American Way, we don't have business as the only employer we can call on for jobs. Plenty of people work for government too; and for cooperatives and nonprofit enterprises like clubs, churches, and colleges. This is what

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the economists call a mixed economy. And should be too; nobody needs to have a monopoly on furnishing employment.

"There are millions of essential jobs in public enterprise, all the way from teaching school to generating TVA power. And there are plenty of public works that a rich and powerful nation like this should have and that businessmen can't always provide."

"Why can't business provide them?" It was Pete, who held to *laissez faire*.

"Because business works for profit, as you showed, Pete, and there's no prospect of financial profit from many public services. Mind you, I'm not criticizing business when I say it works for a profit. That happens to be a fact; it's the way business is organized, but we need public services too."

"Such as?"

"Such as highways, schools, hospitals, fire departments, water systems. Soil conservation. Playgrounds and parks. Elimination of grade crossings. Low-cost housing for people who are all crowded together. Health services, libraries—you could go on and on. There are scads of things to do. They pay off plenty—a few in actual cash return; more, like health services, in making first-rate human beings, which is more important. If we plan for them, people can have a wonderful life in this country."

"That amounts to a revolution," protested Pete.

"Not at all," said Steve. "As a matter of fact the kind of economy I'm advocating is pretty close to what we have right now. I read somewhere that in 1941 federal, state, and local governments accounted for a quarter of all American activity. We've got an active government which conserves soil, builds dams, acquires forest land, clears slums, sets up

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health services, puts out fires, and teaches school. In war-time we had a government which owned, if it did not operate, plants producing aluminum and magnesium and synthetic rubber and gasoline and machine tools and lots more. It controlled most production through the WPB and most distribution through the OPA. It spent around 100 billion dollars a year, over half the national income. Government activity is a part of our American way of handling economic problems, no matter which political party is in office. George Washington started it with the post office. To say we have little government activity is to disregard the plainest kind of plain facts. It's acting as if the 1930's and the 1940's never happened. The real revolution would be to introduce your idea of *laissez faire*, Pete, into an economy that just isn't that kind of economy any more, if it ever was.

"There's one fine thing about programs of public works planned well in advance. Not only are they good in themselves but they can be adjusted to meet the needs at any time. You can expand them if private enterprise goes into a side-slip and doesn't employ the normal number, and you can cut them down when business is booming. When we don't plan for public works in advance we have to meet depressions with make-work relief jobs like raking leaves. If we plan, we can give people a chance to do the kind of real, constructive public jobs that are worth every dollar they cost.

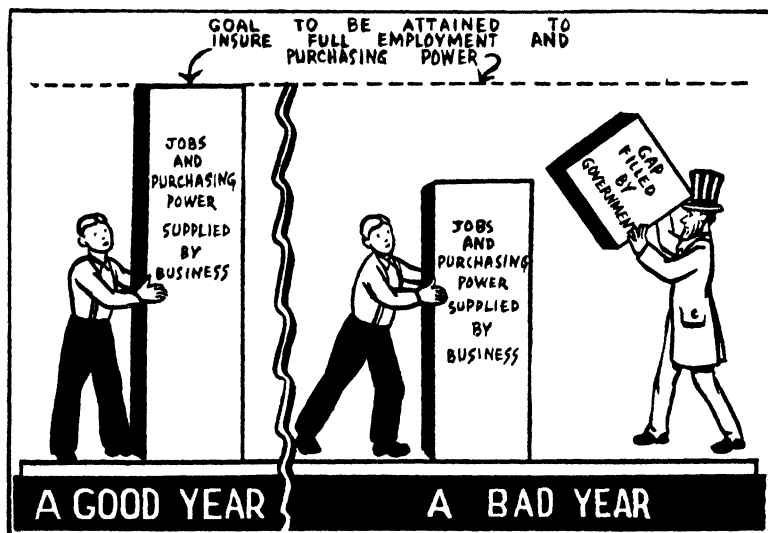
"We'll probably need to compensate for depressions, for times when private enterprise just doesn't come through with enough jobs and production. Business talks big about planning. But what's it done besides make surveys of job opportunities? Or plan research studies?"

Mac said, "Private enterprise can do the job, without call-

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ing on government for more than essential services. We don't need your over-all government planning, thank you. You know the song, 'We did it before and we can do it again!' Look at the full employment of 1928."

"Sounds beautiful, but I'll believe it when I see it," said Steve dryly. "In wartime we had to learn to produce a lot



with a few men. We stepped up our efficiency and the productivity of each worker. Now we don't need so many people to produce a given amount as we did before the war. To have full employment we have to open up new fields for employment, as well as employ people in the old. New fields like television for private enterprise and new river valley developments like TVA for public enterprise.

"Our industrial plants are pretty well grown up. We've got enough equipment to have an economy of abundance.

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Our main job now is to use our machines and our man power to raise living standards. We used to have a frontier and people would go west to build new cities and towns and farmsteads and provide a growing market for manufactured goods. Now that frontier is closed. The job now is to improve the cities and towns and farms we have. Our population grew at a fast rate back in the days of immigration. Now our population is still growing but not so fast. So business hasn't the kind of frontier market it used to have. Now we've the chance of the century to rebuild our cities and develop our rural areas with the magnificent machinery we have. What a life we could give Americans!"

"Now I'm sure we can't get together," said Mac. "I think we have frontiers and populations that have hardly been touched by private enterprise. For one thing we've got the poor who are aching for cars and radios and refrigerators and all the things private enterprise produces so well. You might call them 'internal immigrants.' For another thing we have foreign markets. People in foreign countries are hungry to buy American goods. The door's only opening for private enterprise, not closing."

Steve nodded, "I'm all for your idea of producing goods for the lower-income groups. More power to you. That's the group I want to see get the breaks. And I'm all for your proposition that businessmen should be business managers and should get together to plan what they can do. But if private enterprise operates for profit, it has to produce for those who have the money. So it will skim the cream. In the 1920's it was able to sell automobiles, electricity, and buildings; and most of the products went to the upper two-thirds of our people. This time it may be upper-brackets

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housing, slick air conditioning for those who have the dough. To do buying people must have cash. If we have public works planned and ready, people will never be jobless for long, and they'll have power to buy. We can expand public works still further in business slumps. People will use their income to buy. The buying will step up industry's output, its pay rolls will expand, and private enterprise will absorb a lot of the workers who've been on public works. Then if private enterprise is doing all right, we can taper off the public-works program as much as seems sensible. Yet it can always be stepped up so that buying power will be in the hands of the public and we don't get into a downhill skid.

"Remember, Mac, I'm not saying there's no room for private enterprise. I'm simply saying that there's so much that needs to be done that there's room for both private and public works. If private enterprise can't furnish full employment and if we insist on private enterprise alone, we're going to have jobless veterans selling apples on the corners once again.

"So let's be sensible. What are we going to do with people who want jobs and can't get them? Let them stand around idle, unable to buy anything while the country does a tailspin into depression? You can bet your shirt we're not. It's not human to do nothing about unemployment. That's an invitation to revolution. We've heard the free-enterprise system talked of by Pete and Bill and Mac. The surest way to



*If one foot limps
you walk heavier
on the other.*

get a substitute for that system is to have deep depressions or chronic unemployment."

"Where's the money coming from?" asked Bill. "We're up to our ears now in government debt. We can't be spending any more money; we've got to pay for the war."

"Yes, I know. Whenever anybody mentions government doing sensible decent things that need to be done to keep the country from hitting the skids, some people say we can't afford it. We've *got* to afford it!

"Can we afford it! You know what we really can't afford? Depressions. The money not passing from the factory to the worker and back to the factory. When we don't make half of the things we could make, and have half the people living off the other half—that's what we can't afford. A few billions spent on building houses on which people pay rent is chicken feed compared with losing billions of income in a depression year like 1932 and 1933—50 billion dollars each! We can afford to spend for peacetime public works—and for social security too—out of the taxes that a prosperous country will be able to pay. Money paid to government doesn't leave the economy. It comes back in wages. If we have to borrow money in bad times, we can offset that by taxing in good times.

"Anything else you want to mention?" prodded Doc.

"Yes, a few things. We need a program of social security like the English and a lot of other people have. We need to fill in the gaps in the program so that everybody will have at least enough to see him through unemployment, old age, poor health, and accident. Cooperatives should be encouraged because they are one way to loosen up distribution, to keep too much income from going to the few.

"We may need to crack down on monopoly power as

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Bill suggested we should. Not to make little businesses out of big businesses though, but to force price competition when it makes sense. We need low-price policies. If business will keep prices low through self-interest—good. If not, let's call on our government for help. Don't forget it's a decent standard of living we're after primarily."

"Then, as I understand," said Doc, "you propose that private enterprise go ahead at top speed, employing all the people it possibly can. I guess you assume about as much regulation or control over hours and wages and profits, and so forth, as we had before the war?"

"Yes, I suppose so. Times change though, and we may want more or less. Probably more. We'll always have to keep an eye out to stop new abuses or to get behind projects that bring a better standard of living to the people."

"So far as employment by private enterprise is concerned," continued Doc, "you say the more the merrier. But private enterprise probably won't be able to employ everybody. And it can't take care of public services, you say. A depression plays hob with everybody and is the surest way to discredit the whole system of free enterprise. You want to develop a second front in the economy. You want government to rebuild America in areas where profit isn't the main idea."

"Because the economic system is for the welfare of the people and essential needs have to be met," Steve broke in. "That's right."

"So you would have programs for river valley development, soil conservation, public housing, highway building, and health service ready to go into action at any time they are needed. You want planned and worth-while projects, not just 'made work' for relievers. You would supplement

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this two-front program with a broad social security plan. And you wouldn't worry too much about the national debt."

"Better men than I say we can handle a large national debt if we can keep the national income rising," said Steve. "They say, 'we can afford what we can produce.' Seems like common sense that if we've got the resources, the "know-how," and plenty of men with brains and muscles we ought to be able to work things out so that we have a fair, decent standard of living for everybody. That's the way it looks to me."

In what respects does Steve agree with Pete and Bill and Mac? Where is his main point of disagreement? Do you have a preliminary idea of the way in which Tom will disagree with him?

What is Steve's guiding criterion as to which things private enterprise should do and which enterprises government should carry out on its own? How do you feel about this principle?

Why is it that in this section, for the first time, the question "Where's the money coming from?" is raised.

What do you think Steve means when he uses expressions like the following:

democracy
standard of living
full production
regulation
mixed economy
needed public works
government activity
low-price policies
we can afford what we
can produce
planning

private enterprise
public enterprise
new fields for employ-
ment
our plants are grown
up
government debt
we can't afford de-
pressions
social security

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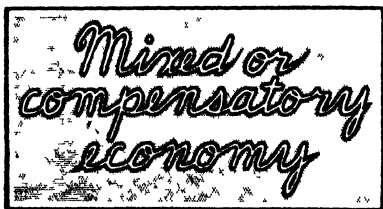
Take some time to think out and talk out the “simple” question Steve has asked: “What is an economic system for?” It’s tied up with your basic assumption as to what you think life is like and what you want it to be like.

How does what Steve proposes square up with your concept of democracy, and with your ideas of what democratic government is for?

Chapter 12

SUPPORT FOR A TWO-FRONT ECONOMY

WHAT is behind the thinking of those who call on us to use business and government in a two-front attack on our social and economic problems? Why do they advocate



what is technically termed a “compensatory economy,” a “mixed” economy, a “middle way”? In this chapter we’ll present their point of view for your consideration.

Assuming that you are by now accustomed to our mode of presentation, we shall not pause often to remind you that we are presenting here the ideas of one group, with which not everyone agrees.

OUR SOCIAL INSTITUTIONS MUST CAUCH UP WITH OUR TECHNOLOGY

They point out that tremendous changes have come about in the past two centuries, as we have moved from the stage-coach era into a day of Diesel engines and soaring Globester planes. Science has joined with industry to produce a technology that creates mechanical marvels at a dizzy pace. Skyscrapers tower over the cities; air travel makes of the earth one world; radio flashes the news seconds after it is made; blast furnaces pour out millions of tons of steel for

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bridges and ships and tools. America is becoming a nation of switch throwers. And, with atomic power just around the corner, the end is nowhere in sight. New frontiers are being opened up by scientific research for yet undreamed-of accomplishments in light metals, plastics, and synthetics, for new miracles of air transportation and home construction. Industry and trade are no longer neighborhood affairs; now they reach across state lines and even national lines, bringing vast areas and populations together into one interrelated, *interdependent* whole.

In the "great technology," production is no longer the primary problem, for America has shown that it has the "know-how" of production. As far as resources and machines and technical skill are concerned, we can go all out for an "economy of abundance." "Poverty is not inevitable any more," Donald Nelson said recently. Now our most pressing economic problem is a new one—to use this machine age so that all can have a high standard of living, socially useful lives, and economic security, and at the same time to maintain and even improve the essential democracy America has always cherished. We need *social* engineering to parallel our industrial engineering.

An obstacle to our getting full, modernized use of our technology is that we have carried horse-and-buggy thinking over into an air-liner world. The very people who insist on the latest things for their home furnishings insist on the older economic ideas for their mental furnishings. They wouldn't dream of heating and lighting their homes as colonial Americans did, yet they cling to now unworkable economic ideas which were in style in the colonies. Sociologists call this backwardness "cultural lag."

H. G. Wells, impressed by the way our social institutions

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lag behind our inventions, wrote that civilization is "a race between education and catastrophe." When the sociologists see men using marvelously fabricated machines to kill each other in war, or allowing productive apparatus to rust while the jobless walk the streets, they are inclined to think that catastrophe is winning the race.

And yet, certain tremendous accomplishments in social engineering, running side by side with those in physical engineering, give us hope for education's victory. The Tennessee Valley development, for instance, is a glimpse of tomorrow's world, say advocates of coordinated government and business activity in our economy. Here floods are controlled, land is conserved, and tremendous power is made available at low cost; industry is stimulated, and the level of living of a people is raised through democratic, decentralized planning of a region.

We can take courage, say the hopeful, when workers and managers grow increasingly willing to sit about tables and arbitrate their differences, and become increasingly skillful at it. We can recognize progress when they work together on labor-management committees instead of slugging it out in hostility.

We can grow hopeful, say advocates of the mixed economy, at the cooperative movement, through which 12 per cent of all farm purchasing is done. For a cooperative's profits go back to the consumer-owner and avoid swollen profits for the few. Through his "co-op," the consumer can buy standardized quality merchandise in a democratic business where every consumer-owner has the right to cast his ballot in establishing policies.

Bringing our social institutions up to the level of our technology will take daring and brains and hard thinking. It isn't

Support for a Two-front Economy

easy to change from the long-traveled folkways of the economy of scarcity to the unexplored ways of distributing goods that must characterize the economy of abundance. It isn't easy to achieve the twin goals, security and freedom. America has found that out in the past decades.

The two-front economy advocates are impressed with the unevenness of our historical development. According to this interpretation of our history, in which ways have we forged ahead? In which ways lagged behind? We might add to your vocabulary the sociological expression, "cultural lag."

THE TIMES DEMAND A MIXED ECONOMY

The best organization to meet the needs of the new technological day, say those whose point of view is argued in this chapter, is a mixed economy, avoiding alike the total planning of the superstate and the planlessness of *laissez faire*. If a railroad station needed repairing, say the mixed-economy sponsors, conservatives would never tackle the job lest the repair work interfere with the running of the trains. The radical, on the other hand, they say, would blow up the station and build a brand new one, and very likely so damage the tracks that the trains would stop running. Advocates of the mixed economy claim that they have a middle way, one through which steady repair work on the railroad station goes on *while the trains continue to run*. Similarly, they say, economic change must be gradual and steady, neither lackadaisically retarded nor pushed through with revolutionary haste.

The advocates of a mixed economy deny that America must choose between *all* government or *all* business control, as "either-or" thinkers so often insist. Why choose between

two evils? For experience already shows that, side by side in the mixed economy, can exist competitive business (e.g., the clothing industry), big business following low-price policies (e.g., automobile industry), private monopoly under public regulation (e.g., electric companies), publicly owned monopoly (e.g., post office), regional government planning (e.g., TVA), cooperatives (like the consumer co-ops), and government agencies (e.g., schools). The economy is already "mixed"—has been for a long time. It is made up of many kinds of enterprises, no one of which has, or should have, a monopoly on job giving or on our lives. For freedom, as John Chamberlin said, "dwells in the interstices of the economic system."

Accept the obvious fact that the economy *is* mixed. Forget the hunt for *one* magic solution to all economic problems. Help every kind of enterprise make its unique contribution, and plan so that each will reinforce all the others. Then you'll be getting the very best from the going system we already have. Let carefully studied experience determine future changes as time goes on. As public enterprise and private enterprise exist and move forward side by side, make each stand the test of use. One variety of public enterprise or private enterprise may serve well the needs of the common man. If so, the people, voting at the polls or casting economic votes as they buy their goods, will encourage it. If another variety serves badly, the people at the ballot box or store counter will discourage it. So argue the advocates of the mixed economy.

Bring into discussion evidence that America is or is not a mixed economy. You have been turning over in your mind several definitions of a free-enterprise system. Is America a mixed economy? A free-enterprise system?

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Both? Neither? (You'll be most successful both in making yourself clear and in understanding others if you'll define both terms with extreme care, remembering that definition is to differentiate, not to serve as a blanket covering vagueness.)

A MIXED ECONOMY CAN BE A COMPENSATORY ECONOMY

Using a mixed economy scientifically, say its advocates, economists can conquer many problems. Of these perhaps the most serious are not having enough money to buy back what we can produce and the problem of mass unemployment on a mounting scale as depressions recur with increasing violence. A method of attack usable in a mixed economy is to supply extra purchasing power when depression threatens and to cut down purchasing power when inflation threatens. The result should be a reasonably smooth flow of prosperity at a high level, instead of violent ups and downs. When one section of the economy, such as public works, is used to compensate for the difficulties experienced by another part, such as unemployment in private business, we have what economists term a "compensatory" economy.

To understand how this technique would function, we must first see what these economists believe are the causes of depressions.

MAINTAINING THE CIRCULAR FLOW OF MONEY

One simple principle is commonly stated by such associations of scholars as the Brookings Institution and the National Resources Planning Board: To keep an economy prosperous, enough money must be paid out in the production of goods to allow the people to buy back all the goods produced. In other words, money must keep flowing in a circle from

pay envelopes to stores to industry and back again to pay envelopes.

But if the stream is blocked for long at any point, depression begins. Now what blocks the flow?

Oversaving and Underinvestment. Many economists hold that the blocking is caused by idle money. Idle money is money saved by not buying consumers' goods, like cars and coats and ping pong tables. It is money saved and not put back into the golden stream for reinvestment, not used, for instance, for investments in land, new airplane plants, new housing developments. Idle money means oversaving and underinvestment. Idle money breeds idle men.

Just as Thomas Jefferson's contemporary, Adam Smith, is the father of *laissez faire*, so John Maynard Keynes (Kānes), a modern Englishman, is the major prophet of the theory of oversaving and underinvestment which we shall sketch in this chapter.

When we look at American saving and spending, we find that in the prosperous twenties we produced roughly between 80 and 100 billion dollars' worth of goods and services per year. Each year we saved between 15 and 20 billions. "Thus about 80 per cent of total income was spent for consumer goods and services and the other 20 per cent was spent through channels which make use of savings. It is in this 20 per cent of expenditures, those which offset the 15 to 20 billion dollars of annual saving, where the key to the depression can be found," says Robert R. Nathan in *Mobilizing for Abundance*.

What happened to these savings? Obviously if they were put under the mattress, tucked away in safe-deposit vaults, or hidden under a loose floor board, the circle of dollars, rolling from pay envelopes back to the factory and again into

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pay envelopes, would be blocked. But if the savings went into new investments like factories and Diesel engines, then workers had jobs, more goods were produced, people could buy, incomes grew. Savings would grow too and be ready again for new investment.

But during the late 1920's, when the dollars of the comfortable and wealthy came flooding into the banks, the savings were like the unfortunate little girl who was all dressed up but had nowhere to go! Lauchlin Currie in a Temporary National Economic Committee monograph (No. 37) stated that only 53 per cent of the savings went into private plant and equipment investment. This portion of the savings largely helped to expand the automobile, radio, and electrical industries and build the skyscrapers which cities proudly erected in the twenties. Another portion of the savings went into loans to build and finance homes, or into public works.

The rest of the money saved in the twenties went hunting for an outlet and sometimes wound up in sterile speculation, which made no new jobs. Some went out of this nation's financial blood stream in loans to foreign nations, and when the nations began to default on their debts in 1928 and 1929, these amounts never came back in. Some went into money lending to support installment-plan buying, which could absorb added funds only so long as people kept confidently buying "on time." Other funds took the form of abnormally high business inventories, which could not continue to expand. Overloaded inventories mean that goods were stocked high on merchants' shelves in hope of sales. Much went into gambling on the stock market. This was not genuine investment, for it didn't buy a single wheelbarrow for a worker, or put anyone to work except perhaps the ticker-tape opera-

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tor. It only bid up the price of existing securities, and the paper profits vanished into thin air when the stock market crashed.

Why didn't private industries snap up all the savings and cry for more as had happened so frequently in the past? Why didn't they put all the savings into productive ventures? Why so many dubious gambles?

One factor was that industry had its own savings, called "reserves," derived from past profits. When an industry expanded by building a new wing on the plant, it usually employed its own savings or "reserves" instead of tapping the reservoir of private savings, as TNEC hearings showed. From the individual company's point of view that was sensible and economical.

The *Domestic Economy*, a supplement published by *Fortune* magazine, illustrated this trend:

From 1930 to 1939, fifty-eight big companies, representing roughly one-fifth of the manufacturing and mining industries, financed 83 per cent of their total capital expenditures from their own sources. Thus the older industries can no longer be counted on as outlets for other people's savings.

So, since industry didn't need new funds from individuals who wanted to put their savings into profitable investments, savings had to look for other outlets.

Another reason industry didn't snap up savings was that it was becoming plain, even before the boom broke, that the new skyscrapers, auto plants, and electrical industries built up in the twenties could take care of a very high level of output. They could supply more than the poorer people could buy with their incomes. If there were plenty of plants

for making vacuum cleaners and not enough people willing or able to buy, why build another plant? So reasoned the manufacturer and so reasoned the investor. "It was not that we didn't need more houses and more of the goods and services we could produce during the twenties, but the consumers who needed these products didn't have sufficient buying power to consume them all," says Nathan. So industry hesitated to expand and investors hesitated to invest in plants. Consequently we had underinvestment and oversaving.

Harold Moulton of the Brookings Institution makes these two points in economists' language, in *Income and Economic Progress*:

Our capacity to produce consumer goods has been chronically in excess of the amount which consumers are able, or willing, to take off the markets; and this situation is attributable to the increasing proportion of the total income which is diverted to savings channels. The result is a chronic inability—despite such devices as high pressure salesmanship, installment credits and loans to facilitate foreign purchases—to find market outlets adequate to absorb our full productive capacity.

Still another reason for underinvestment and oversaving, say others, is that our economy is growing up. The nation is not expanding geographically so rapidly as it used to. There are no more free lands in the West to soak up capital. Even the population is not growing so rapidly as before. Hence we don't need proportionately as many buildings and factories each year as we once did. So if we keep on saving at the same rate, the end result is bound to be idle money, which means idle men.

Idle money breaks the circle of rolling dollars and causes

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depressions. It means factories and stores and farms with more products than the people can purchase. It means bankers always with more funds than private industry can use. It means unemployed men who have no jobs because people can't buy.

The interpretation of how depressions come about which you have just read is basic in the economic thinking of the advocates of the two-front or compensatory economy. Check it over to be sure you understand and can explain it.

What other ideas are there on the causes of depressions? A few students might make a specialized study of this problem, reading up on what laissez-faire economists to the "right" and socialist economists to the "left" have to say. What does business leadership as expressed in the previous section have to offer as an interpretation of depression?

Work on the problem of the cause of depression until alternative theories are clear. Attempt to reach conclusions, leaving them tentative, however, to be modified as you get more information.

There are only two possible things which can be done about oversaving and underinvestment:

1. *Savings may be reduced* by putting a higher proportion right back into the streams through consumer goods buying.
2. Opportunities for *investment may be expanded*.

Either or both will do the trick. Consequently advocates of a mixed economy call for the following program to reduce savings and to expand investment:

1. *Encourage Private Enterprise to Invest.* Government policies should encourage private enterprise to invest its sav-

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ings in manufacturing plant and equipment, including railroads, public utilities, and housing. Nathan advises in *Mobilizing for Abundance*,

Certainly, every consideration should be given to stimulating expenditures for capital goods after the war. Policies should point toward minimum restrictions, maximum incentives, and increased competition, so that private investment in plant and equipment will be encouraged.

The two-front economy is not unfriendly to free enterprise, say supporters of mixed economy. On the contrary, one vigorous exponent of the compensatory economy idea is *Fortune*, the dollar-a-copy magazine read largely by business leaders and the economically prosperous. The two-front compensatory economy is hostile only to monopoly power that masquerades as free enterprise, according to the *Fortune* supplement, *The Domestic Economy*. Even the more "liberal" of the exponents of the compensatory economy state clearly their concern for the well-being of free enterprise. Alvin H. Hansen, in a pamphlet published by the National Resources Planning Board, a New Deal agency, says,

We do not want the Government to run the whole show. We do not want a totalitarian state. We want freedom of enterprise. We want freedom for collective bargaining between employers and employees. We want freedom for cooperative action. We want freedom of choice of occupation. . . .

A positive governmental program looking toward full employment would greatly vitalize and invigorate private enterprise to operate at high output levels. There is plenty of work to do. We need improved manufacturing equipment to produce more and better goods at

lower prices. We need to carry on extensive research in the laboratories of our great private corporations, in our universities, and in Government bureaus to create new products and develop new processes. We need to rehabilitate and modernize our transportation system—by land, water, and air. We need continued advance in the techniques of production, distribution, and transportation; in short in all those elements that enter into a higher standard of living.

2. *Develop a Program of Public Improvements.* This is a very important plank in the compensatory-economy platform. To develop it we shall call upon Alvin Hansen, a leading exponent of the two-front attack on our problem, first as his ideas are expressed by Stuart Chase in *The Road We Are Traveling* and then directly by Mr. Hansen.

Alvin Hansen calls the first construction of your city "extensive investment"; the clearing of the wilderness, laying out of streets, bringing in the railroads, construction of houses, stores, office buildings, warehouses, factories, docks, utilities. Here was a rich field for private investment, with fine risks to be taken for profit or loss, with odds on the profits. Now your city has almost ceased to grow. Its pioneering days are over. But is it finished? A thousand times no. It is rough, crude, ugly in many areas, with wretched living conditions in others. The time has come to make it a better city, not a bigger one. Such investment Dr. Hansen calls "intensive." It does not attract private capital. If slums are to be torn down, parks, playgrounds, schools, hospitals improved, the government must do most of it. Intensive investments are more in the nature of social capital. The interest rate is very low, the element of speculation almost absent.

After the war the United States could use many billions of intensive investment annually for generations, keep-

ing everyone employed in adapting cities to the power age, checking soil erosion, replanting forests and grass cover, extending medical care and education, rehousing that part of the population which now lives in reeking tenements and tarpaper shacks. What a country we could make, and how young people would delight in making it! See how eagerly CCC boys accept the responsibility. But if these things are to be done, the government must arrange for most of their financing. You dare not attempt it with your money, nor I with mine.

Hansen writes in *After the War—Full Employment*,

We need to rebuild America—urban redevelopment projects, rural rehabilitation, low-cost housing, express highways, terminal facilities, electrification, flood control, reforestation. Many public developmental projects open fresh outlets for private investment. We need a public health program including expansion of hospital facilities. We need a nutrition program. We need more adequate provision for old age. We need higher educational standards in large sections of our country. We need a program to improve and extend our cultural and recreational facilities. We need an enrichment of the material and spiritual resources of our American way of life. We have seen how it is possible to mobilize the productive capacities of the country for war. We can also mobilize them for peace. Under a program of full employment new enterprises would grow up; old enterprises would expand. Youth would find opportunity and employment.

The purposes of this part of the compensatory economy are threefold: (1) The public projects proposed are highly worth while in themselves; they represent desirable things which we can accomplish now simply because, as a nation,

we have the money, machines, and man power to do them. (2) The employment they represent will give everyone a job, keep total pay rolls high, and thus supply buying power for all the goods private enterprise turns out. (3) Much public investment, such as river valley developments and rebuilding of cities, will open up new outlets for private investment.

Those who emphasize the *compensatory* nature of such a program advocate, as Herbert Hoover did when he was Secretary of Commerce, expanding the public-works program whenever private business slows up, contracting it as industry reabsorbs the workers. Others simply advocate a *continuing* program of useful public works. Of course, neither group would advocate stopping all building of schoolhouses, roads, etc., even in boom times.

3. *Expand Public Welfare Work and Extend Social Security.* This involves the development and expansion of health services and medical care, nutrition work, federal aid to schools, more work experiences and vocational guidance for students. It involves recreation centers like the wartime Teen-age Canteens, libraries, and art centers. It involves social insurance for old age, unemployment, accidents, sickness, loss of the family breadwinner—a program of social security for everybody. As the National Resources Planning Board publication, *After the War—Toward Security*, puts it,

The American people should base public-aid policy upon the acceptance of the following facts:

1. The need for public aid will be both large and persistent for some time to come.
2. The need for public aid is in large measure caused by serious maladjustments in the operation of our economy and by personal physical or psychological defects, many of which can be remedied.

3. The social problem created by economic insecurity is many-sided and requires for its solution a series of diversified programs.

The over-all objective of public aid should be the assurance of access to minimum security for all our people, wherever they may reside, and the maintenance of the social stability and values threatened when people lack jobs or income.

The specific objectives of public-aid policy should be

1. Increasing emphasis upon policies aiming at the prevention of economic insecurity through a fuller utilization of our productive resources, including labor, and by more comprehensive measures to improve the health of our people
2. Government provision of work for all adults who are willing and able to work, if private industry is unable to provide employment.
3. Appropriate measures to equip young persons beyond the compulsory school-attendance age for assuming the full responsibilities of citizenship.
4. Assurance of basic minimum security through social insurance, so far as possible.
5. Establishment of a comprehensive underpinning general public-assistance system providing aid on the basis of need, to complete the framework of protection against economic insecurity.
6. Expansion of social services which are essential for the health, welfare, and efficiency of the whole population, this expansion should be as wide and as rapid as possible.

On social security progress, the editors of *Fortune* comment,

Fortunately such a social security program is also a definite aid to full employment. For it maintains consumer

income, and hence effective demand. It sets a certain minimum standard of purchasing power on which industry can count in measuring the over-all size of its market. Industry can thus plan its own expansion with more assurance.

Such a conception of the rôle of government is quite different from the ideas of the three schools of thought earlier described. Here government is an active force in the economy. What are the arguments for this that the two-front economy advocates stress? What are the arguments against it? Recognizing that much is to be said on both sides, what is your judgment as to the best rôle for government if your conception of a good life and a good economy is to be achieved?

4. *Organize a Financial Policy Intended to Maintain Full Employment.* The way to regulate a compensatory economy is through the government's management of finances. Regulation will be managed through increasing or decreasing public expenditures, taxes, and national debt.

For instance, when times are good and private industry is maintaining a high level of employment and income dispersion, then taxes will naturally be high and should be used to reduce somewhat the volume of the national debt and the interest that must be paid on it. At the same time government expenditure for postponable public works will be relatively low.

When times look bad, employment falls off, and depression threatens, then the stored-up plans should be put into action to bolster up employment and to stimulate investment through expanded public-works projects. For the duration of the depression, taxes would probably be relatively lower

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and borrowing somewhat increased, particularly if the depression is deep.

As *Fortune* puts it, "Whenever resources are going to waste, it is obviously the duty of government to claim and use them. The return to the economy will always be greater than the deficit."

WHERE'S THE MONEY COMING FROM?

Obviously such a financial policy calls for great governmental expenditures. Some of the projects, like low-rent public housing, will at least partly pay for themselves in the long run; but many represent unrecoverable expenditures. Where's the money coming from?

The government can get the money from two sources, advocates of compensatory economy point out: from taxation and from borrowing.

How much can a nation borrow from its people over a period of years?

Some say a nation can and should borrow during depression to provide jobs for people on public works. In prosperity, these people say, enough should be collected in taxes to pay off the debt run up in depression. Thus the national budget would be, roughly speaking, balanced, not in any one year, but over the period of a business cycle. Others say public spending can and should continue even if it raises the national debt. A debt needn't be completely paid off. For example, the editors of *Fortune* write in *The Domestic Economy*,

The commonest objection to a policy of government spending arises from the fear of public debt. To some extent this fear is grounded in a theoretical misapprehen-

sion: that public debt is like private debt, and that if the government continually spends more than its income it will go broke or cause inflation.

This analogy is false so long as the productive capacity of the nation is maintained, the debt is internally held, and the government retains its taxing power. For with production flowing, since the interest on the debt is paid to residents of the country, the government can always recover an equivalent sum in taxes, no matter how huge.

Alvin Hansen, in a pamphlet published by the National Resources Planning Board, agrees:

The public debt is something very different from the private debt of an individual. An individual will always improve his asset position if he is able to pay off a part of his debt. But a nation may make itself poor by reducing public debt. This is true because such reduction tends to cause deflation, depression, and unemployment. It is a good thing to retire a part of the public debt if you want to check an excessive boom. It would be ruinous to retire the public debt in a postwar period when unemployment was spreading.

A public debt is nothing new. England is still paying interest on the debt from the Napoleonic wars and has never made a serious effort to pay off the debt as a whole. At the end of those wars, England had an internal debt amounting to twice her annual income. She found herself in the same situation again after the First World War. Yet such a debt had little noticeable effect on British prosperity. In fact, Macaulay in Chap. XIX of his famous *History of England*, published about the middle of the nineteenth century, was already explaining why a national debt is a good thing and how it began and increased in England.

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After all, a public debt is money that citizens of a country owe to citizens of the country. Some citizens will want to buy bonds, that is, to lend money. Some will want to cash in on bonds, that is, to stop lending. The debt itself can remain, being raised or lowered as the government decides. All that is absolutely essential is to keep on paying the interest on the debt.

However, apparently no one believes that the national debt can be increased recklessly or indefinitely without bad results. Even those who feel that a rising national debt is not a cause for worry seem to assume a limit, though they are not sure what the limit is. The all-important thing for any economy is that its income go up. Wisely chosen public investment and expenditure on technical research will help to ensure a rising national income. If the debt rises no more rapidly than income, the problem, they believe, is a manageable one.

As to whom to tax and what kinds of taxes to use to raise money for public works and services, there are again differences of opinion. But mixed-economy proponents agree that taxes are not wicked evils. You can get your money's worth from taxes, they say, for taxes buy roads and hospitals and TVA's. Rising taxes for public works also supply jobs and stimulate prosperity.

Who shall be taxed? This is an old question. Some, who stress oversaving, would tax the well-to-do more heavily. They ask us to bear in mind that it is the upper-income groups that do the bulk of the saving, since they do not need to spend all their funds for personal consumption. Consequently this school of thought proposes that the income taxes on individuals in the upper-income brackets be increased.

They cite the findings of the Brookings Institution, contained in *America's Capacity to Consume*, that the wealthier Americans had more income than they wished to spend or could spend on buying goods. Consequently the wealthy saved money. The upper 10 per cent of American families, accounted for 86 per cent of the total savings of American families. "Approximately 60,000 families at the top of the income scale, with incomes of more than \$50,000 per year saved almost as much as the 25 million families (91 per cent of the total) having incomes from zero to \$5,000."

In addition to family savings, half the savings of the nation were made by corporations. The 80 per cent of the people who are not well off account for only 2 per cent of the savings, according to the Brookings' studies. Obviously there is no problem of "oversaving" for these people! Taxes on what they buy, sales taxes for instance, should be removed to encourage the fullest possible consumption by the great bulk of the American population. The wealthy should bear the heavy taxes.

Another group of economists see underinvestment, instead of oversaving, as the point to attack. They fear that a steep tax on upper incomes will slow down investment. *Fortune* puts it plainly,

The daring individual, the risk-taking entrepreneur, should therefore become the darling of America's future economy. Tax policy, and every economic policy, should favor the man who invests in a new or expanded business. His rewards should be proportionately high because his contribution to the national wealth is great. Similarly the capitalist who risks his money on him—without security—should expect a return on his equity proportional to the risk.

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Yet the lively discussion of debt and tax policies among the compensatory economists should not obscure their essential agreements. They fully agree that the citizens of this mixed economy should (1) give business the green light, (2) plan extensive public works, and (3) establish freedom from fear through social security. They are agreed on the need for (4) tax, debt, and public spending policies that will maintain full employment in a productive America.

Though they differ on technical matters as to the best financial mechanism to use, they are sure that the best of the proposed roads to freedom and economic security is a two-front economy. It is, they say, along the middle road with no violent change from the past.

Take up the four-point program, item by item, and relate it to the compensatory economist's interpretation of what goes wrong with our economic system to cause depressions.

The most controversial matter in the compensatory platform is financial policy. Discuss on the basis of all the evidence you can gather "where the money's coming from."

Through a four-point program such as this, advocates of the two-front compensatory economy hope to achieve a "New Bill of Rights," set forth by the National Resources Planning Board. It includes,

1. The *right* to work, usefully and creatively through the productive years;
2. The *right* to fair pay, adequate to command the necessities and amenities of life in exchange for work, ideas, thrift, and others;
3. The *right* to adequate food, clothing, shelter, and medical care;

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4. The *right* to security, with freedom from fear of old age, want, dependency, sickness, unemployment, and accident;
 5. The *right* to live in a system of free enterprise, free from compulsory labor, irresponsible private power, arbitrary public authority, and unregulated monopolies;
 6. The *right* to come and go, to speak or to be silent, free from the spyings of secret political police;
 7. The *right* to equality before the law, with equal access to justice in fact;
 8. The *right* to education, for work, for citizenship, and for personal growth and happiness; and
 9. The *right* to rest, recreation, and adventure; the opportunity to enjoy life and take part in an advancing civilization.
-

What seem to be the values chiefly stressed by this group of economic thinkers? Do they differ from the values of other groups of whom you have read? Consider the differing regard for security as a value in the schools of *laissez faire* and of compensatory economy. Is there a difference in their attitude toward freedom or in their interpretation of it?

Some would call the philosophy of the two-front economy "relativistic" or "pragmatic." Can you discover the meaning of these two philosophical terms and see whether they apply?

The case for a two-front economic policy seems to rest upon these premises:

1. That private enterprise, operating by itself, cannot continuously supply jobs for all who need them or sufficient purchasing power to buy back all the products of industry.

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2. That the necessary "compensatory" expenditure by the government can be soundly financed, without danger to the national financial structure.
3. That active government participation in economic enterprise—job making—is a desirable thing in our democracy.

Do you agree with all these premises? If you disagree with any of them, what are your grounds for doing so?

Continue filling in your *Chart of Economic Proposals*.

The references that follow include books and pamphlets to which a part of your class might refer in studying further the two-front economy. They aren't the only references, of course. New books, magazine articles, etc., are constantly appearing, and the group will need to seek them out. After some time spent on the pros and cons of this point of view, they will be ready to share ideas with the entire class.

REFERENCES

After the War, by Maxwell S. Stewart. New York: Public Affairs Committee, 1943.

A glance at proposals for economic organization after the war. The two-front economy seems the most likely to be adopted, the editor of the Public Affairs pamphlets implies, indicating the unlikelihood of extremes. Easy reading.

After the War—Full Employment, by Alvin H. Hansen. Washington, D. C.: The National Resources Planning Board, U.S. Government Printing Office, 1942.

The case for government and business investing together to provide postwar jobs. It is scholarly but not difficult reading. Ideas are dramatically presented.

After the War—Toward Security, by the National Resources Planning Board. Washington, D. C.: U.S. Government Printing Office, 1942.

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The NRPB presentation of a plan for security. It describes proposals and sets up principles for security programs. It is carefully organized and somewhat heavier reading.

Cooperatives in the U.S.—A Balance Sheet, by Maxwell S. Stewart. New York: Public Affairs Committee, 1941.

A good summary of cooperatives for the general reader. It is a discussion rather than an advocacy. Easy reading.

The Domestic Economy, a supplement by the editors of *Fortune*. New York: Time, Inc., 1942.

An advocacy of the compensatory economy presented by a magazine that has been a spokesman for liberal businessmen. It is presented abstractly and calls for knowledge of economic organization for understanding reading.

Goals for America, by Stuart Chase. New York: The Twentieth Century Fund, 1942.

In developing a budget of our needs and resources, Mr. Chase indicates that we now have resources which can meet our needs. His chapters deal with food, clothing, shelter, education, recreation, etc. The book is clear, graphic. It is easy reading.

Mobilizing for Abundance, by Robert R. Nathan. New York: Whittlesey House, 1944.

An explanation of depressions. Oversaving is our basic problem, the author says. He calls for investment by private and public enterprise for a healthy economy. This case for a two-front economy is understandable and simplified.

National Resources Planning Board publications. Washington, D. C.: U.S. Government Printing Office.

Students should be acquainted with the variety of NRPB publications and should get some conception of the Board's studies, for the work of the NRPB was a sample of one kind of activity which would be necessary in a two-front economic organization. Some students may wish to read on special topics such as *Better Cities*, *The Housebuilding Industry*. A list of the publications is available from the U.S. Government Printing Office.

Post-war Agenda, by the National Resources Planning Board. Washington, D. C.: U.S. Government Printing Office, 1942.

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An agenda of what needs to be done to build a better America.
A statement of a new bill of rights. Clear and understandable.

A Primer of Economics, by Stuart Chase. Evanston, Ill.: Row, Peterson & Company, 1941.

Here Stuart Chase writes for high-school students his conception of how the economy is organized. He deals largely with our money mechanisms as basic to understanding economics. He also considers principles. A simple straightforward account of one economic school of thought.

The Road We Are Traveling, 1914-1942, by Stuart Chase. New York: The Twentieth Century Fund, 1942.

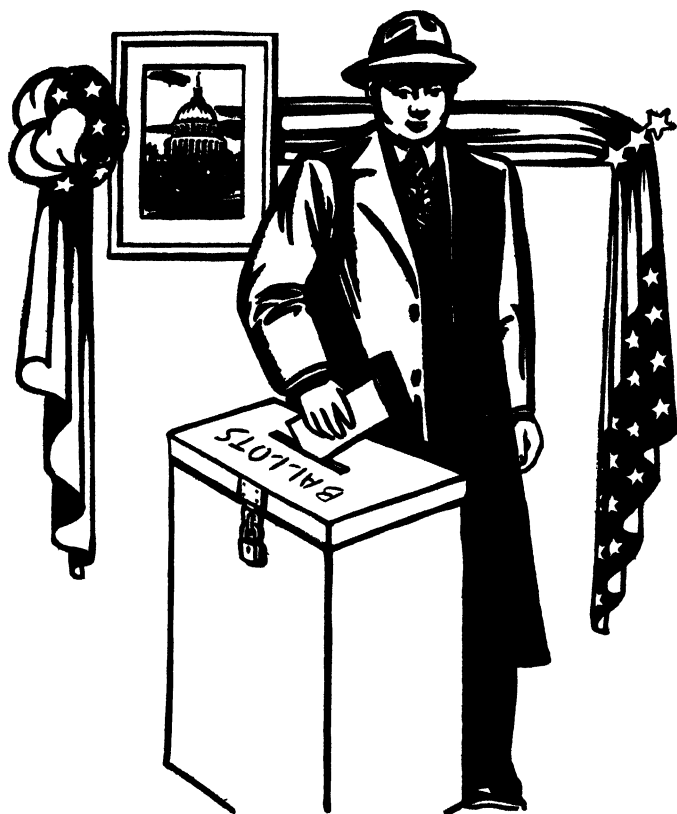
This book is a summary of major economic changes between the First and Second World Wars which make, in the author's opinion, a compensatory economy essential. This is perhaps the most easily readable of the author's Twentieth Century Fund books.

60,000,000 Jobs, by Henry Wallace. New York: Simon and Shuster, Inc., 1945.

A proposal of a comprehensive "national budget" of purchasing power, production, and employment, with government offsetting deficits in purchasing power or employment through public works and by other devices.

Where's the Money Coming From? by Stuart Chase. New York: The Twentieth Century Fund, 1943.

An explanation of the workings of money and of the national debt. The case for the compensatory economy. A clear and simplified description of one view of a difficult topic, postwar finance.



GOVERNMENTALLY PLANNED ECONOMY

Chapter 13

THE CASE FOR A GOVERNMENTALLY PLANNED ECONOMY

YOUR turn at bat," Doc said to Tom. "Just don't throw the bat at us, though."

"I won't," said Tom. "I'm laughing too much to get violent with you. You're all too comical for me to get mad."

"Looks like that's one thing we've got in common," Steve said to Pete.

"You've got one other thing in common," said Tom. "You all believe in 'free enterprise.' You roll the two words around on your tongues like a Fourth-of-July orator telling a crowd that he believes in the sanctity of the American home and the glory of American womanhood. The funniest thing is that each of you thinks he has the right idea of what this wonderful gift to the world, 'free enterprise,' really is. And each one thinks the others are poor heathen, worshipping graven images.

"Pete's all for 'free enterprise.' What does he think it is? No government encouragement, support, regulation, control, participation, ownership—no government anything. The government just to be a cop preserving property rights. Meanwhile business will compete perfectly and 'the invisible hand' will see that all the mysterious natural laws work out in just the duckiest way.

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"Bill's all for 'free enterprise.' What does he think it is? A flock of two-by-four concerns knocking each other's ears off in stiff competition because the Sherman Act says that small-scale production is much nicer than large-scale.

"Mac's all for 'free enterprise.' What does he think it is? Our hero, business, planning everything. Mr. Moneybags setting the prices, planning, producing, keeping his swollen profits, lowering his taxes—doing just about everything except one thing. Mr. Moneybags doesn't compete—some of the boys might play too rough. What is government doing while this is going on? Sitting around and deciding when Thanksgiving will be! Its services won't be needed, because the wolf, capitalism, is going to do the economic planning for the benefit of the dear little lambs, the common people.

"Even Steve's all for 'free enterprise.' What does he think it is? For a while I couldn't tell for all the talk about two fronts. But it turned out that his to-do about human welfare



The Case for a Governmentally Planned Economy

was really for the benefit of alma mater, good old 'free enterprise.' When the private enterprise section of the economy gives us bigger and better depressions by letting the machines rust while the workers stand in bread lines, the government is nobly to step in. Then it will pacify people's misery with bread and circuses and make-work jobs in a 'free-enterprise' system.

"Everybody is for good old 'free enterprise.' But you all scrap like Kilkenny cats over what the blessed thing really is! Everybody's got a program to save 'free enterprise'—whatever it is. That is, everybody except me.

"Because I think that your monopoly capitalism, which you dress up in fancy pants and call 'free enterprise,' isn't worth saving any more. It was O.K. in its day, but its day was yesterday. Now, instead of slaving at the pumps to save the old wreck, we ought to let it sink—and good riddance to it!"



Pete was aghast. "How can you say such a thing?" he exploded.

"Why not?" Tom asked coolly. "Afraid to face the truth? The system's a failure, and that's all there is to it. Look at the lives we could have if we used the men and materials we have—really used them scientifically for the good of all. Then look at the lives our system actually gives most of us ordinary Joes. Jeepers, what a difference! Capitalism hasn't delivered. And you may as well admit it."

"That's plain silly," said Bill. "I don't see how anybody can think that, if he takes a sensible look at our mass production, our efficiency, the things we have, and the way we outproduced all our enemies in the war two to one."

"Especially if he has the common sense to remember that we've done all that and at the same time kept freedom for everybody," Pete added.

"That's why I personally won't even consider giving up the basic system, even though I want to build a modern wing on the fundamental structure," said Steve. "When it comes to production there's simply nothing like it. It's got inventiveness and ingenuity and it generates tremendous power. When it comes to distributing the goods or providing social services or everybody consuming enough, I'll admit there are still a few bugs in the system."

"A few bugs!" Tom roared. "There's a plague of locusts loose in the system! Sure, we have the makings of a wonderful level of production—thanks to our natural resources, our climate, and the productivity of labor, as well as to our genius for management. I'm not arguing that. But what does it get the average guy? All the pretty machines and stores full of things to buy don't do much good if you're unemployed or working for peanuts and eternally scared of a layoff."

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"The big question is—who gets what? Some of you talk about a high standard of living as though Americans actually were living in a land of milk and honey. Stop kidding us. I'll bet three out of five families in this country have less than they need for a decent standard of living even in the 'good' years. The home economics teacher in your high school could have proved that with figures. And at least one out of three of them live in tumbledown houses all the time and have empty stomachs more often than full ones. When your free-enterprise system breaks down every few years and gives us years of depression, poor people are pushed down to the barest existence. They're not wanted; they're made to feel they don't belong.

"The upper-income kid grows up in a suburb where there's grass around his house and room to play. He never wonders where the next meal is coming from; he knows the maid will bring it to the table.

"The kid whose family is struggling along grows up in a city slum and he finds his fun on traffic-jammed streets or in the back alleys. Or he grows up in a rural slum, a shanty or shack without running water, where all the kids sleep in one crowded room. He wears holes in his clothes and then keeps on wearing them. He. . . ."

"I don't see what you are proving," interrupted Bill. "We're just as sympathetic toward poor kids as you are. Are we supposed to eat little children for breakfast because we believe in the free-enterprise system?"

"What we're *all* proposing," Mac put in, "is ways to provide income and jobs and a decent standard of living for people. You left-wingers haven't got a monopoly on human sympathy. There is social-mindedness in modern business."

"That all sounds fine," Tom answered, "but whenever

Pete and Mac, in particular, talk, they seem to be worrying about the feelings and income of businessmen. They don't sound equally worried about the poor devil who has had to live his life in filth and poverty. I thought I'd remind you, as Steve did, that this country belongs to the common man, not to the robber barons and the exploiters."

"Maybe it's your poor devil's own fault," said Pete. "I can't see why he has to be filthy—soap is cheap and water's free. He has a chance to rise just like everybody else. Look at Henry Ford and Edison and all the others who started poor and went up the ladder. It's a free country with rewards for those with the gumption to get 'em."

"Still holding on to the pipe dream that any young man with ambition and a clean face can rise from rags to riches, à la Horatio Alger, aren't you, Pete? It's a free country. Oh, yeah? The tenant farmer is free to sell his cotton or tobacco or corn or wheat at whatever the market offers—or he's free to bring it home again and starve. The worker's free to take a job in the mill or the factory at whatever wage is set—or he's free to sit around home and watch his family go without what they need. The rich man and the poor man are both free to sleep on the park bench or get a bowl of soup in the bread line, if they want to. Some freedom your 'free enterprise' has brought us!

"Don't get me wrong," said Tom. "I'm not against freedom because I'm against free enterprise. But I'm for freedom in an orderly framework! It's the dog-eat-dog, every-man-for-himself, capitalist freedom I'm against. I'm for controls that would give others freedom and a full stomach too. You can get more freedom by having traffic rules and regulations which people pay attention to, than by having every-

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body driving hog-wild. Let's give up this doing just as we please and get security."

"You'll make bums out of people by giving them security," said Pete. "Give them security, and you'll have to force them to work. I don't see what Steve is going to use for money in his mixed—mixed-up is a better word—system. And I don't see what *you're* going to use for incentive. Men work for money and power. Unregulated competition fits in with human nature. It's easy to criticize, but what do you propose?"

Tom said, "We've got to have economic planning.- And it has to be done by the government. Our unplanned capitalism broke down once too often in the twenties—it showed that it just doesn't work. The nearest we have come to all-out planning was during our two world wars. And how we turned out and used stuff then! The national income went beyond all records in this last war. Why? Not because of free enterprise, as Pete and Mac say. But because we *forgot about* free enterprise and we planned and we controlled production. We had a War Production Board that coordinated plans into a master all-out production plan.

"You can't plan in a half-hearted way by little dabs of government activity, as Steve wants to do. We still had millions of unemployed despite the government pump priming in the thirties.

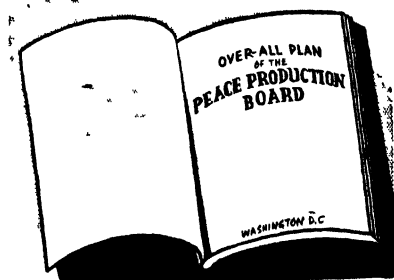
"The question now isn't whether we should plan. We *have* to plan. The system is too complex to depend on automatic working of so-called 'natural' laws. Mac admits that, and Steve recognizes it. The question now is who is going to do the planning.

"Mac wants business to have the upper hand in whatever planning is done. Have businessmen a monopoly on brains?

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Haven't scholars and consumer representatives and unionists and farm leaders any ideas? Why should the owning class set the policies and do the planning, and not the people? Wasn't it old Tom Jefferson who said 'government *by* one class is government *for* one class'?

"I want the policies to be set by men who are responsible to the people. In a democracy, that's our elected officials.



Government policies can be changed by public opinion and through voting into office men with policies the majority of the people support.

"So I want government to do the planning and put the plans into action. I want an official planning group to advise our representatives, and then I want administrative machinery to carry out the policies of our representatives. There must be a central planning board, something like the War Production Board, with power to make its decisions stick. There would be grass-roots planning, too, by unions and by managers, by farm cooperatives and consumers' organizations. But all the little plans would be geared together by government into one big plan which would tie together production and consumption and income and finances.

"Based on the Board's planning as to what to produce and what might be wanted for consumption, industry would turn out goods at reasonable prices so that there'd be both production and purchasing power. At least while we're making the transition from an unplanned capitalism to a planned society, we'll use the existing structure of things, but with

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a ceiling on profits, and with government ownership and operation of monopolies, public utilities, and banks. As time goes on, managers of such business will slowly and steadily become well-paid technicians employed by the nation as a whole to produce materials in accordance with a plan."

"You mean this board is going to tell these 'well-paid technicians'—who used to be independent business managers—what they can make and when they can make it and what they can charge for it when they get it made?" There was a tinge of horror in Pete's voice as he asked the question.

"I mean just that," said Tom. "A plan's no good if you don't have some way of putting it in action."

"Government of the bureaucrats, by the bureaucrats, and for the bureaucrats?" inquired Mac, restraining himself with elaborate politeness.

"Efficient government administration will be necessary," Tom went on. "So will a program of education toward better citizenship. There will still be politics, because that's essential in democratic government, but Congressmen and all other policy makers will have to learn to base their actions on scientific research. But even what you free-enterprise lads like to cartoon as 'bureaucracy' will seem like heaven compared with the postwar depression we'll move into in a capitalism that can't distribute income to the people who make the goods, a capitalism which doesn't use men and machines for full production. Anyway, don't forget we've got the equivalent of bureaucracy in private business, too—and it isn't responsible to the people, as government employees are. Studies show that fewer than a million businessmen make the decisions that really count. And of that million a handful of men probably are responsible for most of what

goes on. There has to be control somewhere, and I'll take my chances on turning it over to our government."

"What are you going to use for incentive?" persisted Pete.

"Your favorite question isn't it, Pete?" grinned Tom.

"All right," Pete snapped. "Maybe it is an old-fashioned question, but you can't just laugh it off. We've been going for a long time now and doing very well in a system where every man's self-interest—the good old profit motive—gave him the spark it takes to make a man work hard and use his brains. It paid him to think hard, to figure out new things to do and better ways of doing things, to take a daring chance now and then. When you added together all the things a lot of ambitious, able men did, you got the American way of living.

"Now you're going to wipe all that out. You keep using the word 'planning,' but you know as well as I do that you're using it as a pretty cover-up for the ugly word 'control.' You're going to put a ceiling on the returns a man can get by using all his ability. That kills the thing that has kept men striving. Now just what are you going to put in its place?"

Everybody tried for the floor at once, Bill and Mac obviously backing Pete's judgment, even Steve apparently troubled. Finally Bill broke through the hubbub. "Your system just won't work, Tom," he said. "Maybe you can build a pretty machine that way, but it won't have any spark plug. An economic system works well because each man puts his heart into his work. And you're fixing to take the heart out of it."

Doc stepped into the discussion. "The boys have a point, even if they are generating more heat than the rules of this bull session call for. They claim the four cases we heard up

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to yours were fundamentally pretty much alike—just modifications of the same going system. But they say you're setting up a whole new basis of operation. Whether our system is good or bad or somewhere in between, it has depended on a certain kind of motivation to keep the human beings—who are the real substance of any economic system—pushing and striving. They think you can't find an adequate substitute for that motivation. I'm sure you have something in mind, but you'd better meet their point squarely. And their point, as I see it, is simply that your system won't work.

"We can afford to spend some extra time on your case," he added, "because it is so different."

Tom nodded soberly. "That's right," he assented. "It's me against the field, because I do want something fundamentally different from 'free enterprise' or 'mixed economy.'"

"In the first place, you are all exaggerating the change in motivation. Government planning won't wipe out the kind of incentives you think work. Men who are too lazy to work won't get a good living handed to them on a platter. The more efficient will still get better pay, more pleasant, responsible positions, and greater respect in their communities. What I'm proposing is not communism, which I reject. And it doesn't go anywhere nearly as far as Russian communism in changing incentives. But even in Russia people who have ability and who work hard get much bigger returns than the others do. I saw an article in an old *Reader's Digest* just the other day called 'Stalin Pays 'Em What They're Worth.'"

"But just for the sake of argument I'll take you at your assumption that the money incentive will be gone. What then? Why, then, the incentive will be the kind of world

we can build if we plan, instead of following dog-eat-dog rules. A world of full production, full employment, security. A world with decent homes to live in, good food and clothing, leisure hours when we can have fun. A world in which we have steady jobs, where our wages get better as we pro-

duce more, where we can have ourselves a good standard of living.



*A better
world for all
is incentive for
the individual.*

“In that kind of planned world, Pete, a man will *be-long*. His job will mean something, for he’ll be working for community welfare, as well as for his own. There was a great man who once said, ‘Man does not live by bread alone.’ That’s what people like Pete don’t take into account when they claim that dog-eat-dog behavior is really human nature.

Selfish working to have more money than the other fellow isn’t human nature. It’s just something we learn in a society that gives all the rewards to the tough and ruthless. Where people feel there’s something to work for that’s bigger than themselves, people will act more like scientists and country doctors than like gangsters and pirates.

“And you don’t have to put it on high and mighty theoretical grounds, either. Just look around you at the workers you know. Why do you think a farmer goes to a lot of pains to plow a straight furrow? It doesn’t increase the crop or put more money in his pocket. Why does a doctor stay up

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all night to save a baby when he knows the parents won't pay him a dime? What keeps research workers plugging away for years on barely enough to live when with their brains they could make oodles of money? For that matter, why does your mother dust back of the furniture where she knows no one is going to look? I tell you, people don't just work for pay checks—except maybe some who haven't any choice but to do dull, dirty jobs. People get a kick out of doing a good job, if they know it's worth while. Veblen called it the 'instinct of workmanship.' ”

They looked to Pete for his comments.

“Mush,” said Pete briefly.

“The prosecution rests,” said Tom. “Gentlemen of the jury, don't bother with sentencing to death the defendant, Free Enterprise. The poor old system is ready to pass out through natural causes any day now. It's dying of the disease Poverty-in-the-midst-of-plenty. When it's dead we'll plan for plenty.”

“So,” said Doc, “you advocate a central planning board, Tom, with grass-roots planning too. The function of the Board will be to translate policies into plans. You want the people's representatives, backed by adequate research staffs, to set policies, instead of irresponsible businessmen. For a transitional period, businessmen will keep their businesses, but production will be for strictly limited profit; but there will be a growth in government ownership and operation of certain key enterprises until finally the present owners and managers will be well-paid technicians employed by the government. Production and consumption will balance each other in an economy that's planned. You'll take a chance on bureaucracy, for it will be democratically controlled by an adequately staffed Congress, and it will exist to plan the

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economy in accordance with the people's wants. In that kind of system people will 'belong.' They'll work to build a people's world. Is that the way you would put it?"

"Just about."

"Wait a minute," said Bill. "Maybe Tom's willing for his 'prosecution,' as he calls it, to rest. But I'm not through with mine."

"A little while back we all hopped on Tom because we didn't think his system would work. We didn't think he could maintain the efficiency and the boundless energy that we have under free enterprise. I still don't think he has proved that he could, although what he says sounds nice."

"But let's grant that his government planning and economic control *would* work. Let's even exaggerate and say his planning board's paper plans would work out perfectly and we'd have high production, and jobs, and two cars in every garage."

"Gentlemen," he said thoughtfully, "I still wouldn't like it. Because it isn't democratic. Sure, I'd like security. I'd love to have all the shiny gadgets and all that. But not at the cost of my personal freedom!"

"That's me all over," Pete added quickly. "If I have to choose between luxury under bureaucratic control or less security and luxury in a free country—and I don't believe I have to make that choice—I'll take freedom. It's all right for you fellows to tinker with strictly economic policies, even if I don't agree with you. But I don't think Tom even has a right to tinker with our basic democracy and try to introduce some un-American system—whether he calls it plain communism or thinks up some nicer name for it."

Doc stepped in again as moderator. "How about it, Tom?"

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As I see it, the boys are saying that economic efficiency isn't the only test of a new policy. It also has to square up with the basic principles of American democracy. And they think your system throws an essential part of that democracy overboard for the sake of security and efficiency. How do you feel about that?"

"It's a good question, and I'm glad it came up," said Tom. "Only don't muddy it up by yelling 'communism.' That's a trick the big boys use every time some proposal comes up to give the ordinary man a break.

"Of course, that we give up some of what you mistake for freedom is true. We lose a little freedom of action, too, when we put up a traffic light—the freedom to barge through the intersection as we please. But actually we *gain* freedom of action, because everybody else is subject to the same law, and we can get where we want to go faster, more easily, and more safely. In a way, any regulation is like that. If it's really needed to solve a problem, if it applies to everyone equally, it may give you a lot more actual freedom by taking away a little bit.

"I think we need to define what we mean by democratic freedom. I don't believe it just means freedom for a few strong and maybe ruthless men to rise to the top and dominate the rest. If freedom is a precious part of democracy—and I believe it is—then we need to shoot for the greatest freedom for the greatest number. And I believe you can get that best



*We gain
more freedom
than we lose.*

by controlling industry in the interests of everybody rather than by letting a few people grab it for their private gain."

Pete tried to break in, but Tom went on. "Let me take that further. You fellows all make democracy and free enterprise practically synonymous. I admit that they sort of grew up together. And I think that each of them was a tremendous gain over what went before. But now I think we are ready for the next step."

"You mean leave them both behind and go on to something new?" asked Mac slyly.

"No," Tom protested. "I mean we're ready to *increase* democracy by extending it to include genuine economic democracy along with political democracy."

"Mush again!" Pete said. "What's so undemocratic about a farmer running his own farm? What's so democratic about having a lot of bureaucrats telling him what to plant, and making him kill off his little pigs to suit somebody's beautiful 'plan'? You're just using nice words to cover up a lot of interference in everybody's life."

"If it's necessary to regulate your farmer somewhat in order to keep agriculture as a whole, and our economy as a whole, healthy, then I'm still for it," said Tom steadily. "Individual freedom is good, but the common welfare is important, too."

"But I think you are talking about a kind of liberty which isn't necessarily essential to democracy. I'll fight to the last ditch for freedom to think my own thoughts, say what I think, and live my own personal life. That's the kind of freedom democracy means to me. That's why I'll never go for communism or fascism. But that's different from. . . ."

"Yes, and you'll lose *those* freedoms, too," said Bill. "Maybe not right away. Your planners will start with a

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moderate program, but little by little they'll think up one 'necessary' regulation after another. Ben Franklin said it—'If we give up liberty for security, we lose both.' Look at what happened in Germany and Italy and. . . ."

"Aren't you forgetting that *our* planners will be under *our* control?" Tom asked. "You can't compare that with what happens in a Nazi setup where a few guys get almighty and run things to suit themselves."

"O.K.," Bill assented. "There's a difference. But all the same, you just give *any* bunch of government men—I don't care how good their motives are—25 years of planning for us infants, and see what you get. And don't forget our officeholders aren't all statesmen by a good many miles. You'll have a tough time convincing me that they'll always run things scientifically, for the good of all. Not when it will be easier to get a lot of votes in the old home district by making big promises and pulling some juicy chunks out of the good old pork barrel."

"That's true enough," Tom agreed, "especially if you're talking about elective officeholders. But I think there's a lot of propaganda wrapped up in this word 'bureaucracy.' Instead of talking about 'bureaucrats' all the time, let's use the term 'civil servants' for a minute. I think you'll all agree that we have many expert career men. They work for low salaries and they work hard. They spend a lifetime learning all they can about some specific field. They work behind the scenes, so they seldom attract much attention or controversy, and they're not much influenced by political pressure because they're simply out of touch with it. Many of them are scientists in the best sense of the word."

"How about some examples?" Bill asked.

"Easy enough," Tom said. "Take the technical men in

the Bureau of Standards, who help businessmen set standards and develop new processes. You'll find that business people have plenty of respect for them. Take the United States Forest Service—ever hear anybody complain that the Rangers don't know their stuff? Take the FBI—those boys are good, don't you think? Take the fellows who gather statistics in the Department of Commerce and the Department of Agriculture; did anyone ever tell you they change their figures to suit the political situation? Take the research men in the Public Health Service or the Bureau of Human Nutrition, or the Children's Bureau.

"There are plenty of cases already where your so-called 'bureaucracy' pays back dollars for every dime spent. And we can improve the services a lot more if we make a serious try at it."

"Gentlemen," said Doc, "I am going to call time on you. Tom believes that control by a government which we the people run is democratic—more democratic than indirect control by powerful business interests who don't have to answer to us. He believes that if we citizens are alert and intelligent we can secure good enough government to make planning work. Apparently Steve must agree with him in large part on that. The rest of you don't.

"Well, each of you will have to make his own estimate, and work for what he thinks is best.

"Of course," he went on, "I shouldn't say that just because you are forced to fall back on opinion you must stop discussing and arguing. In our kind of society we all have a stake in the outcomes and we all have a right to put in our two cents' worth.

"But I think we could easily overestimate the degree to which this discussion has been an argument. You fellows—

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and just about all the rest of us Americans—are after pretty much the same things. You all want to foster a sound economic order that will continually raise the standard of living and provide opportunity for every decent individual to attain a scale of living commensurate with his abilities and his desires.

“That means, as you all see, that there must be freedom. But it also means, as you feel in varying degrees, that the freedom must be limited and regulated in some orderly way for the best interests of all. You all claim your goal is a democratic way of life. Our constant problem—the one you’ve bumped your noses on time after time—is to determine how much regulation is necessary, and how much is too much.

“No one person can lay down the rule for answering that question. No one person or group can even dictate a definition of democracy we all have to accept. The whole citizenry must participate in making a collective judgment. And there are two dangers: One, that too many people will make their judgments rashly, without sufficient information. Two, that too many people will choose selfishly what would immediately benefit them or their particular class or group. Democratic judgment can be good judgment only if it is based on a broad foundation of informed judgment and of consideration for the best interests of the whole society and of the individuals who make up the society.”

Well, what is *your* estimate on each of the two basic issues?

1. Will a governmentally planned economy maintain and progressively increase the energy, inventiveness, and drive that America has traditionally had? Is the profit motive essential, as Pete, for example, thinks?

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Or can other equally strong—or stronger—motivations be developed, as Tom thinks?

2. Is the degree of governmental planning and control Tom wants consistent with your concept of democracy? Is it even, as Tom suggests, conducive to better democracy? Or will it, as some of the others feel, stifle the personal freedom which is an essential part of democracy?

“Planning” is another term none too easy to pin down. What does it mean to Tom? To you?

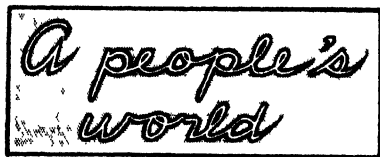
What does Tom mean by these words and phrases:

free enterprise	a central planning
monopoly capitalism	board
full production	belonging
American standard of	human nature
living	instinct of workman-
capitalist freedom	ship
controls	poverty in the midst of
security	plenty
economic planning	who is going to do the
bureaucracy	planning?

Chapter 14

SUPPORT FOR A GOVERNMENTALLY PLANNED ECONOMY

So WE turn to those who agree with Tom, to present the arguments they stress, and to picture the kind of solution they propose. In place of what they see as planlessness, they would have planning. In place of having economic decisions made primarily by businessmen, they would have economic decisions made by the people's representatives in government. And they would have those decisions welded together into over-all government planning of the economic system.



The proposals of this type of planners go by many names: "planned economy," "democratic collectivism," "strategic planning," "planned consumption," the "transition to socialism," "planned abundance." As is usual with economic proposals, the name is less important than the meaning.

Furthermore, the thinkers whom we are here lumping off together are by no means in complete agreement among themselves, no more than are advocates of leadership by business or advocates of the compensatory economy. Some want much more drastic change than others do. For instance, some

want socialism. Others, like the National Planning Association, work for democratic national planning through the cooperation of government, business, labor, and agriculture.

But they are agreed that a fundamental change from free enterprise is essential. For, say the planners, the test of an economic system—the test that can be used to determine whether any social institution is worth its salt—is simple: *Does it serve the people?* Does it promote the common welfare? If an institution or system does, keep it. If it doesn't, change it. And by this test, in their opinion, free enterprise fails. The system, they say, simply does not work.

THE CHARGES AGAINST FREE ENTERPRISE

In its infancy, most planners will admit, free enterprise represented a forward step. It took the place of a static feudal society; it played its part in extending democracy; it helped develop natural resources and productive techniques. But now its ways no longer fit the civilization it helped to bring about, and it no longer even exists in its classic form.

Because the changes proposed in this section are broad, it is necessary first to see what reasons are given for making a change. There are many counts against the system, but the most obvious are these, say the planners.

1. *Free enterprise has not achieved an equitable distribution of income.* Equitable (fair) is the important word. Planners do not call for an *equal* distribution of income; they do, however, call for a raising of the income of the poor even should it involve lowering the income of the rich. Thus, even though they do not ask for complete equalizing, they do want some.

Those who reject free enterprise cite a battery of facts

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and statistics to dramatize what they think is maldistribution of income in the United States. The classic Brookings Institution study, *America's Capacity to Consume*, showed that in 1929, heyday of the prosperous twenties,

Nearly 6 million families, or more than 21 per cent of the total, had incomes less than \$1,000. About 12 million families or more than 42 per cent had incomes of less than \$1,500.

In this society of haves and have-nots 36 thousand families received as much income as 11,653,000 other families did. One-tenth of 1 per cent of the families of the United States had available for their private consumption as much as 42 per cent of all of the American families.

A study of the years 1935 and 1936 showed that in this depression period more than 12 million families subsisted on less than \$1,000 a year. (Included in that \$1,000 is the value of food raised by rural families for home consumption.) In that year of human suffering, roughly two-thirds of our families were receiving less than \$1,500. Even in the war-boom year of 1942 some 3½ million families or individual "consumer units" had cash incomes below \$500.

2. *Free enterprise cannot use our great technology for full production.* Almost half of our American families receiving less than \$30 a week in a boom year might not represent failure for an economy of scarcity where there was not enough to go around. In fact, to most nations it would seem like lush prosperity. But it does represent failure, insist those who see high possibilities in another system, for an economy of abundance, where plenty has been proved to be awaiting our use. For our economy, even in 1929, was one

in which the Brookings Institution estimates in *Income and Economic Progress* that a 20 per cent increase in productivity was possible with existing labor force, and existing industrial methods. Such a 20 per cent increase could have brought the income of all families to a \$2,500 level without scaling down the income of those receiving more than this figure.

Other estimates of what we might have produced in 1929 were still more optimistic. The National Survey of Potential Product Capacity asked, "What might the American people expect in the way of goods and services if the productive plant was operated at capacity?" and concluded that "those goods and services which were not produced or handled would have been sufficient to remove destitution and the fear of destitution from every citizen without taking anything away from the fortunate 8 per cent possessing in 1929 incomes of \$5,000 or more per family." Yet in this economy where plenty was possible, 71 per cent had incomes of less than the \$2,500, which Brookings found feasible under present methods. Ninety-two per cent had less than the \$5,000 which the National Survey found feasible under an economy of full production. Free enterprise was missing the chance to use our resources and machinery to create abundance and the good life for all.

The most striking example of what could be accomplished came during the war when, working by plan, we almost literally superimposed the huge wartime production upon 1940's production, though millions of the most vigorous workers were out of production while serving in the armed forces.

3. *The free-enterprise system cannot supply jobs to those who wish to work.* This third charge is related to the

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first two. Even in 1929, according to the Committee on Economic Security, unemployment ranged from about $\frac{1}{2}$ million in October to nearly 3 million in February. At the depth of the depression there were between 10 and 15 million "set free" to walk the streets. The figures speak for themselves.

In view of this record there is skepticism about the ability of capitalism to provide jobs for our postwar labor force, especially since we are able to produce much more per man-hour than ever before. At a meeting of the American Economic Association in 1944, Dr. Julius Hirsch of the New School for Social Research said,

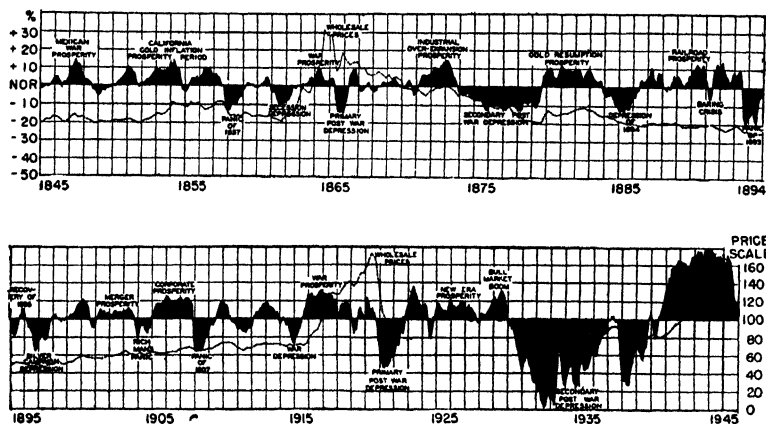
In 1929, the year of our greatest prewar prosperity, we employed 48 million laborers for approximately the same number of hours per day as we do at the present time. Today, employing ten per cent more workers for no more than the same number of hours, we are producing far more than double the total volume of 1929.

The question now is: After this job is done, what will we do with the 9-10 million people we have employed through 1943-44 in addition to those employed in 1939? These are the people who have made this greatest production of all times possible. And in addition, we have that most precious part of the nation, the 11 million in the armed forces. . . .

With our present methods, I feel it is impossible to create full productive employment for a labor force of 62, 60, or even 58 million persons.

4. *Free enterprise enters into bigger and worse depressions as time goes on.* The chart on the following page tells the story graphically.

Economic Roads for American Democracy



Courtesy Cleveland Trust Co.

Every one of these depressions left a trail of misery, lost savings, lost jobs, lost homes and property. And what, the planners inquire, brought about these colossal collapses? Socialism? Statism? Governmentalism? New Dealism? No, indeed, no other *ism* than *capitalism*! They believe that, although there would be some fluctuations under any system, the violence and destructiveness of America's business cycles have been because of its capitalistic organization and can be avoided under government planning.

5. *Free enterprise is characterized by endless insecurity.* It isn't only the physical hunger, cold, and suffering of the lean years that are hard to take. There is an erosion of human personality when men forage for food in garbage pails, rake leaves, or sit at home through endless afternoons. There is the creeping fear that insecurity brings. The creeping fear of losing your job. The creeping fear that some day after you are forty-five you'll hear the foreman say, "It isn't

that I want to lay you off, Jack, but. . . ." Insecurity—a ghost always there. Always the thoughts which begin with "What if. . . ." What if there should be an accident on the job? What if the baby should need an operation? What if I have to support my mother and give up marriage?

If such insecurity were necessary, say the planners, that would be that; human beings can face what they have to. But the planners feel that it is not necessary, that it is only incidental to the kind of economic organization we have. Change the organization, plan for steady high-level production and the avoidance of extreme fluctuation, provide for the minor fluctuations through social insurance. Then men can have security.

6. *In the free-enterprise system people don't "belong."* If the "profit motive" which is endorsed by the proponents of free enterprise is to be the only economic motivation, then, say the planners, people will feel no loyalty to a something greater than themselves, no allegiance to an ideal. For the only ideal thus set out is loyalty to one's selfish material interest. But the planners insist that the profit motive is not an adequate explanation of men's behavior. It is no mere theory, they say, that "Man does not live by bread alone." Men want some higher purpose to strive for. History is full of men who, far from being cold materialists, were passionate strugglers for their fellowmen. They went on crusades; they suffered themselves to be driven into the wilderness because of their insistence on freedom; they sank to their knees in adoration in forbidden churches; they went without shoes in Revolutionary War times; they risked their lives in speaking against slavery; they organized unions over the opposition of strike breakers, labor spies, the police, and the scandalized indignation of conservative society.

The philosophy of free enterprise is inadequate because it is based on the narrow concept of "economic man," the idea that man is as calculating of his own advantage as any Scrooge. The "economic man" ceaselessly calculates his chance of buying the best at the least, of turning a penny's profit, of getting a few coins advantage over the other fellow. This, say the planners, is the bloodless abstraction which we are supposed to believe representative of humanity.

A person isn't an economic man. People want to "belong." People want to participate. One may not agree with all the objectives of the Russians, but he can't deny the surge of enthusiasm with which they have thrown themselves into building a new society. And he can't claim that the American factory worker, doing a routine job for a company in whose management he has no voice, shares that enthusiasm. The youngster cited by Sabra Holbrook had something like this in mind when he put it, not very elegantly, "In Germany youth is allowed to work for the state along with the big shots but here everybody thinks kids is dopes." The philosophers of the economic man think "adults is dopes," too.

It is not, say the planners, that we believe people should be encouraged to "belong" through the state worship of Hitlerism or the new nationalism of the Soviets. But there must be something bigger than the empty pursuit of financial success. Everyone should find fulfillment democratically in playing a part in his society, counting in his community—"belonging."

Capitalists worry, smile the social planners, about the lack of incentive for good work in anything but a capitalistic society. But it is precisely capitalism itself, with its limitation to narrow financial goals and its insistence on self-inter-

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est, that fails to tap the deep, abiding purposes for which all men will genuinely strive.

What do planners believe about what human beings want, about what drives them? Many things said by Tom, as well as the fifth and sixth criticism of free enterprise cited above, deal with theories of human nature. Do people need security? Do they want to belong, to share in a common effort?

Contrast this point of view on people with the interpretation that people want adventure, risk, and that they are concerned for their selfish ends without regard for the welfare of anyone else. Are wants and needs something one learns or something fixed in human beings?

Perhaps you'll want some of the class members to specialize on study of psychology in an attempt to understand why human beings (including you!) believe as they do. Some of the questions they might study include: Which of our drives and needs are learned, and which are part of an unchangeable human nature? Are we products of our heredity or environment, or both? Are there instincts of workmanship and self-preservation?

7. *Free enterprise is at a stage in which opportunity for advancement and self-employment grows less.* Some justify what free enterprise calls "the business game" by reference to the thrill one gets by rising to money and power. Some rank individual success in competing with others more highly than any other value. If they are not already in the top group, they support free enterprise in the hope that some time they will be. The literature of capitalism titillates their expectations with tales of the great men who have risen from tykes to tycoons, from barefoot boys to bulls and bears on Wall Street.

But, actually, much of the old ease in crossing from one economic group to another in America has been lost. As more and more of each kind of business has been concentrated into great factories, chain stores, and corporation firms, it grows harder for the young man to enter these fields with an enterprise of his own. In Benjamin Franklin's day, the ambitious young journalist could start his own paper. To-day, when a newspaper involves a great investment and a struggle against existing giants, the young man can only hire on as a reporter, and the chances are he will never be his own boss.

In *Middletown in Transition* the Lynds found that

In every major field of work the share of the population employed was growing more rapidly than the share of the population self-employed or employing others. . . . The situation in Middletown industries roughly epitomizes the general situation in all occupations. What one seems to be witnessing here is a fundamental alteration in the vaunted American ladder of opportunity by which one has been traditionally supposed to "go up in the world," "get ahead," "improve one's self," "arrive." . . .

There are probably far-reaching social implications in these changes in the American ladder of opportunity. Our American culture has founded its exuberant boast of a classless society upon the two facts of universal suffrage and of vertical mobility up the pecuniary ladder. In the past reality and the alleged permanent continuance of this universally accessible ladder lie the popular justification of the reigning *laissez-faire* philosophy—as regards the present predatory practices of business enterprise, the pattern of uneven distribution of the national income, and the virtue of self-help in contrast to

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the alleged "immorality" of many types of social legislation, from public "doles" and unemployment insurance to old-age security.

8. *Free enterprise is a system in which labor is exploited, in which labor must struggle for every social gain.* From the beginning of the industrial revolution in England, the worker was regarded both by economists and in actual practice as a means to cheaper mechanical production. He was a tool, merely one of "the factors of production." The modern democratic idea of respect for the worth and dignity of every individual was not applied to him. Lewis Mumford says,

Human beings were dealt with in the same spirit of brutality as the landscape; labor was a resource to be exploited, to be mined, to be exhausted, and finally to be discarded. . . . The poor propagated like flies, reached industrial maturity—ten or twelve years of age—promptly, served their term in the new textile mills or the mines, and died inexpensively.

The same attitude toward labor, and the same conditions prevailed when capitalism's factory system was introduced into America. Faulkner and Kepner cite the rules and regulations of Amasa Whitney's mill in Massachusetts in 1830,

The Mill will be put in operation 10 minutes before sunrise at all seasons of the year. The gate (sluice gate for water power) will be shut 10 minutes past sunset from the 20th of March to the 20th of September; at 30 minutes past 8 from the 20th of September to the 20th of March, Saturdays, at sunset.

The pace of work was fast, the discipline of foremen and overseers rigid, and the work monotonous. There was no

protection against industrial disease, and little precaution against crippling accidents. With nothing to sell but their labor, workers stayed on through fear, through the need to avoid starvation, through brute necessity.

To combat such conditions, labor organized. The common law of England regarded labor organizations as illegal, so organized labor's first fight was for mere existence. All the way along the line, organized labor has been fought by the owning group. Sometimes the battleground was hours, or wages, or working conditions, or employment of women and children. Labor's leaders have been jailed and they have been bought off. Labor organizers have been spied upon and beaten. Labor's strikes have been broken by police power or by the violence of "citizens' committees" of vigilantes. Labor has been brought into corrupt courts. Still the record is one of steady progress in labor organization and influence as it fought for a place in the sun, say the planners.

9. *Free enterprise is a system in which the consumer is not granted sufficient information to buy intelligently.* Advertising is prominent in the free-enterprise system. Yet, although it *informs* the consumer to some extent, advertising is far more interested in simply forming him. It puts across the message, "Buy so-and-so's brand" and rests content, leaving the consumer to find for himself the worthiness or worthlessness of the product.

Likewise the clerk behind the counter or the salesman at the door too often urges a purchase with no real consideration of the consumer's interests, because he is thinking only of his own profit. The merchandising system is organized, not primarily to help and inform the prospective customer, but rather to persuade him.

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Thus the buyer has too little real basis for making choices in the wonderland of modern products. As a consequence he gets less than he might for his money. Such a condition, say the planners, is not inherent in commerce, but only in a system of merchandising which is dominated by the profit motive. In a planned economy, dedicated to human welfare, there would be advertising and selling, too; but they would be allies of the buyer, helping him meet his needs as accurately and as efficiently as possible.

10. *Free enterprise isn't free enterprise at all!* At first glance this statement may sound paradoxical. But, say the planners, it is a sober statement of fact. Free enterprise is monopoly capitalism. What does "free" mean in a system in which a few have economic freedom from want and many do not, in which big business is dominated by monopoly while small business grows leaner, in which individual opportunity has sharply contracted? What does "enterprise" mean in a society of powerful centralized government, of subsidies and handouts for pressure groups? What does another favorite word, "competitive," mean in a system characterized by monopoly practices, restricted production, quotas, fixed prices? "Free enterprise" is little more than a slogan, a rallying cry for those who would give the business group a preferred place in American society.

Review and sum up the criticisms of free enterprise by the planners. Examine them item by item. Where do you agree and disagree?

All in all, should you agree or disagree with the planners' judgment that the free-enterprise system doesn't work? Should you agree or disagree that it is time now to think of building the new system into which the planners say we must move?

THE PLANNERS' SUBSTITUTE FOR FREE ENTERPRISE

Alongside their criticisms of a system which they think can no longer work, the planners set their vision of the world we could have. They see a world in which we could have economic plenty; in which our work would have meaning, purpose, dignity; in which our spare time could be used for healthy fun, for true recreation. They see a world free from insecurity and economic fear, a world in which men could "belong."

George Soule expressed their idea well in his *A Planned Society* in 1932 when the potentiality of a planned technology was capturing the imagination of intellectual leaders.

Social-economic planning is not merely a device to give everyone a bathtub and a Ford—though the first objective naturally must be to raise the lowest standards of living, not to speak of providing everyone the assurance of enough to eat and wear. But, after such modest goals are achieved, it may appear that people do not want to go much further in that particular direction. We may be more interested in the quality of our satisfactions than in the quantity. We may want more beautiful communities in which to live, more chance to get back to the woods, to have camp-fires, to swim, to fish, to hunt. We may want to paint pictures, to act in plays, to grow gardens, to read, to make our own furniture. We may decide to decentralize industry geographically, to make fewer things by machine and have more chance to create variety for ourselves. Discussions about such cultural questions will become increasingly important. But the chief cultural value of planning will remain what it is at the start. Instead of being individually at war with society, instead of being baffled and burdened by an irrelevant environment of social forces, we shall be at work, through society, mastering our own life and

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creating it as a whole. We shall have a warm and active bond with our fellows.

The road to a truly free existence, say the advocates of democratic collectivism, is the road of planning. Today in free-enterprise society, many freedoms are luxuries, reserved for the few. Freedom from fear and freedom from want, for instance, are scarcely known to the poor and to the struggling middle class. Freedom of the press is enjoyed by those wealthy enough to own newspaper or magazine outlets for their opinions and by those with sufficient advertising appropriations to affect subtly or directly the attitudes of the opinion-forming agencies. But if we turn to the road of planning we can extend existent freedoms, like freedom of religion, freedom of elections, freedom of speech. We can achieve greater freedom of the press. It is possible to institute for all the economic freedoms that come through the banishment of the pale ghost, insecurity.

What seem to be the basic values of the planners? What do they regard as most important in life, to be fostered by legislation?

What else is there that might be valued as highly or more highly than the major values prized by advocates of traditional business?

What are your own highest values? Now that you have examined some choices, what do you most believe in as needed for "the good life"?

HISTORY SHOWS THAT PLANNING SUCCEEDS

Planning is no idle dream, concocted by theorists, say those who call for planned abundance. Planning has been tried and found workable. Consider these historical facts.

America has demonstrated that she can produce through planning. For proof turn merely to the amazing production record of America in both world wars. Even with the limited planning of the First World War, Stuart Chase points out that "What the War Industries Board really did was to make it possible to lift one-third of the productive manpower of the country into the army and munitions services, and to keep the remaining population fully and purposefully employed at a somewhat higher standard of living than it had ever before enjoyed. In brief, the Board so organized the national economy that two men did the work of three, and did it better."

With the over-all planning of the Second World War's War Production Board, in 1944, our gross national product was at least double what we produced in 1940. We were maintaining a high civilian standard of living, serving as the arsenal of democracy, and feeding those portions of the fighting people to which we had access.

We have planning in peacetime in America. See our TVA's, our scientific management in industry, our Department of Agriculture, our controls over banking. Those who ask for coordinated planning want broader scale use of the scientific planning technique which has been used successfully in such enterprises.

Or for proof that economic planning can deliver the goods, turn to what the Soviet Union has produced through its series of 5-year plans. Though American social-economic planners reject the political and other undemocratic aspects of the Soviet organization, there can today be little doubt of the economic results of socialist planning. In 25 years, planning lifted the Soviet Union by its bootstraps, changed it from a backward, semifeudal nation to an industrialized and

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dynamic power among nations. For confirmation we need not turn to loyal communist fellow travelers; we may consult the books of confirmed supporters of free enterprise, men like Joseph E. Davies of *Mission to Moscow* or Wendell Willkie of *One World*.

What do planners think is significant in history? According to them at what time in history was capitalism a success and when a failure? What historical evidence do they cite to show that planning works?

What periods in our historical development are stressed by planners? What periods are underemphasized?

From what you know of history should you agree or disagree with the planners?

NEW FORM OF PUBLIC CONTROL

The trend among social planners in recent years has been away from extensive government ownership of production plant. Their feeling is that public ownership needs to cover only a few strategic parts of the economy. Social control of the rest can be established under private ownership. The old socialist emphasis on government ownership and operation has been replaced by an emphasis on experimentation with new forms of public authority. For instance, public control can come through public corporations like the Federal Public Housing Authority; through authorities like the Port of New York Authority, or TVA, or Bonneville Power Administration; through financial policies on taxation, debt, and borrowing. Planning does not necessarily mean that a person's books or best shirt will not be his own or that the corner grocer will be succeeded by a government store. Even the left-wingers among the government planners, so-

cialists like Norman Thomas, concede that to achieve planning only the commanding heights need be taken. He says in *We Have a Future*,

The commanding heights of our system are ownership of land and natural resources; of money, banking, and credit; and of the great monopolies and semi-monopolies including the public utilities. If these are properly controlled socially and that control is supplemented by a better Beveridge Plan, the right kind of taxation—which should include the use of the graduated capital levy—and full protection of the rights of labor, there will be room for private enterprise, and certainly room for and need of consumer coöperatives.

EXTENSIVE GOVERNMENT OWNERSHIP NOW EXISTS

But if a nation advised by a planning authority should decide that much of the physical plant of the nation would better be operated for full production by government rather than by private ownership, it would find a large section of the economy already in the hands of government through wartime demands. Twenty billion dollars' worth of new industrial equipment was built by government. At least one-fifth of the American industrial plant was owned at the end of the war by the United States government, which purchased for prosecution of the war approximately 75 per cent of all American output. Its ownership was particularly high in strategic materials and key commodities. In an article "Uncle Sam—Proprietor" in *Common Sense* magazine (1943), Aaron Levenstein estimated that 70 per cent of our aluminum production facilities were owned by the United States government, 94 per cent of the magnesium facilities, 10 per cent of steel, 50 per cent of machine tools, 90 per cent of plane

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production, 80 per cent of synthetic rubber (according to Jesse Jones "sufficient to manufacture more than 800,000 tons of synthetic rubber annually, which is one-third more than we have ever used in peacetime"), 20 per cent of our land, and 75 per cent of our shipbuilding facilities.

Although many of the plants had been built with government funds and government has kept the title to the plants, it had leased them to private operators. Lewis Corey said, during the war,

Most of the government plants are being operated by monopoly corporations, which gives them a stake in future decisions on disposal. Three-fourths of the government's steel facilities are now operated by five big corporations, 40 per cent of them under U.S. Steel operation. A handful of aircraft and automobile corporations operate the new aircraft plants. The synthetic rubber program revolves around the Standard Oil group, the Dow Chemical interests (four plants), the Du Pont and Mellon interests, and the big chemical and rubber corporations. The Dow interests (Dow Chemical and Dow Magnesium) operate seven of the new magnesium plants, and five corporations operate most of the balance. Alcoa was highly favored; it gets almost one-half of the new aluminum capacity (33 out of 76 plants).

Fear that this magnificent industrial plant will be allowed to rust, mistrust of monopoly utilization of the government plant, plus a recognition of the need for planning our economy, impel the Postwar Planning Committee of the Committee for Industrial Organization to recommend that America regard these plants as

. . . A new form of public domain, as important as the western lands which the nation owned a century ago.

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Our forefathers sought to have that earlier domain used for the people rather than for the few. We must strive to the same end today and more successfully. . . .

Agreements must be reached immediately to assure that the new productive capacity is utilized wherever possible and reconverted to civilian use. The employees of these new plants should be protected, but not at the expense of other workers. The aim should be to decrease rather than increase restrictive practices, monopoly, and concentration of economic power.

Careful consideration should be given to guarantees that must be requested of private operators to achieve these ends. They must be required to observe national wage standards and to comply with laws on collective bargaining. They might also be required to utilize all equipment at full capacity and to permit labor participation in setting production goals and prices. Continued government ownership, with private operation, may prove desirable.

The rôle of government in a planned society is markedly different from its rôle in a laissez-faire society. Describe it carefully. What seem to you the advantages and disadvantages to the people of having such a government?

WHAT GOVERNMENT WOULD MEAN IN PRACTICE

Max Lerner, in *It Is Later Than You Think*, published in 1939, agrees with the point of view that control of strategic points in the economy by the people through their planning board would suffice to establish a planned economy, or as he terms it, "democratic collectivism." We quote him at length for he summarizes procedure in a planned economy competently.

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The collective effort must aim to increase what there is to share, at the same time as it sets itself the task of sharing it more equitably. This is a principle that squares with the American emphasis on what Stuart Chase calls "the technological imperative." At a conservative estimate the present national income in America can be increased by a third in five years. It would probably not be too optimistic to say it could be doubled in a decade. Those are huge stakes to play for. . . .

How could such an expansion be accomplished? Roughly by selecting the twenty or thirty basic industries which contribute most heavily to the national income; by estimating the consumption schedules for their products (assuming full reemployment) at prices that would yield a tolerable profit on the increased production levels; and by stepping up production simultaneously in all the industries, according to the allotments to be worked out within a frame work set by the planning authority. I stress the simultaneous stepping-up of production because what is crucial is the gearing of increased production to increased purchasing capacity. Unless production is simultaneously stepped up in all the key industries, there will be no general reemployment and therefore no purchasing capacity adequate to take the increased product of any one industry off its hands.

Obviously such a program could not be carried out without guarantees both to the owners and to the workers. Otherwise the plan would meet resistance in its adoption and sabotage in its execution. The owners of industry, if they consult their immediate advantage in an unplanned capitalism, seek to maximize their total profits, even at the social cost of keeping prices high when demand falls. They will not consent to lowering their price and decreasing their unit profit on the chance that they will sell enough more to maximize their total profit. A government fund which would under proper

conditions take the unsold product off their hands so that they would have no loss on their total, would not have to be larger than the billions involved in the present lending-spending program.

Labor, on the other hand, seeks to maximize wages and minimize hours, thus adding restrictions to production just as the owners do. While in an unplanned capitalism this restriction is a counsel of survival, it would not be necessary in a planned collectivism. If the government fund guarantees to labor an increasing annual income for all workers, weekly wages will be able to fit more flexibly into the calculations of the planners. What the workers' earnings would be would actually be determined by the confluence of several factors: an increasing total national income, an increasing workers' share in it, competition between industries for the labor of the workers, real wages as affected by government control of monetary value through control of the money and credit volume and of prices. The socialization of the banking and credit system is a necessary element in any planned economy, whether capitalist or socialist. So also is government control of foreign trade. So also is government direction of the investment process; for investment is the arterial system of industry, determining the total national product and the allocation of that product among industries. It is, moreover, also the most effective weapon that the capitalists have against the progress of a collectivism: the withdrawal of investment, the "flight" of money, the sit-down strike of capital, have all been used against left-wing governments and used to good effect.

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One merit of such a plan is that it does not deflect the national energies into the traditional cul-de-sac of progressive governments—trust busting. Monopoly position is today the prime fact about our industrial system,

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but in relatively few instances does it take the outright form of trusts. The major part of the industrial system is characterized by a corporate-administered price hegemony divided among several or many producers acting in a loose accord either through trade-association agreements or through holding-company or banker control. The outright monopolies, such as the aluminum industry, should be nationalized immediately. For where only one producer occupies the field, nothing is to be gained by trying to create many; and the state had better be that producer. The same applies to the public utilities as natural monopolies, and to industries so crucial to the state as munitions. For the rest, the processes of government control involved in planning will put us in a position where we need not fear the price hegemonies that are today's monopolies.

When the task of gearing together consumption, production, income distribution, and investment has been given social responsibility, the owners are left in a valid position where the limited returns they get are returns for management and imagination, and not returns for the power achieved through their capture of the strategic positions in a society.

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These are the agenda for a democratic collectivism. We shall not achieve them overnight. But they are a target to aim at.

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. . . if we have not had the courage and intelligence to inaugurate a democratically planned collectivism, there will be other groups who will proceed to enact a planned collectivism of their own. Only they will lack the scruples about democracy that we have, and that alone can make planning responsible.

To sum up the answers to our questions. Capitalism cannot be permanently revived. It survives today be-

cause it has placed itself on a brink-of-war collectivist economic footing. That cannot last. But can capitalism plan? It can plan if the majority and its leaders have the courage to take capitalism away from the capitalists, and make its basic decisions socially rational and responsible. But can capitalism be stabilized by planning? Not for long, for it is at best an unstable form. A planned capitalism is a transition step to a planned socialism. Our hope is to make that transition gradual enough to avoid violence, yet effective enough to prevent breakdown. Eventually private ownership, with the economic and cultural power that it carries along with it, must be the exception rather than the rule.

What are the economic convictions of the planners? You have already examined their case against "free enterprise." On the positive side, what do they believe?

What are their objectives in a democratically planned economy?

How do they think public control and public ownership can be used to make an economy prosperous?

What do they see as the strategic parts of the economy which must be state controlled or state owned for planning purposes?

To what extent is the government an active force in the economy at present? To what extent should it be active?

How will each of the following contribute to planning? A planning board. The policy makers. The workers, farmers, and consumers.

What would the people who believe planned economy undesirable say of the planners' positive statements of belief?

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Again you need still more data—both on the condemnation of free enterprise and on the proposals of the planners. As one section of your class specializes on proposals, they will find some variation, as in the other schools of thought. Some planners believe in slow extension of existent planning without too much use of government ownership. Other planners are socialists, believing in a substantial amount of government ownership and operation of resources and industry in a democracy.

Off to the left of these planners are the communists who would find the point of view expressed in the two preceding chapters not at all far-reaching enough. For the communists believe in economic planning plus political dictatorship of the Soviet Union kind and reject the gradual, non-revolutionary approach of the planners. The communist point of view is not detailed as a separate school of thought because our book restricted itself to roads for the American domestic economy advocated by sizable groups of Americans as a practical line of approach within the framework of democracy. One section of the class, nevertheless, may wish to study the communist proposals.

Your *Chart of Economic Proposals* is now full of contrasts and similarities. Fill in the ideas of the planners and you will have a general outline of many of the ideas we have described throughout the book. Use words carefully so that the chart has lasting meaning to you.

Under the Labor government, the English people have been taking many of the steps advocated by American planners—nationalizing the banks and certain big industries, for example. What can you learn of how they have proceeded, and how things are working out?

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Following are a few references that support this point of view. One section of your class may wish to study them as well as publications critical of this point of view. Of course, the list should be supplemented by more recent publications, magazine articles, etc.

REFERENCES

As We Win, by the Department of Research and Education of the CIO. Report of the CIO Postwar Planning Committee, 1944.

The case for over-all planning for all-out production. Such planning would include public works and full operation of all war plants. This report is prepared by the CIO representatives of labor. Extremely easy to read.

The Chart of Plenty, by Harold Loeb and Associates. New York: The Viking Press, 1935.

The results of study of the potentialities to produce of our economy. Given all-out production, presumably planned, a family income of \$5,000 is possible, says the National Survey of Potential Product Capacity. Difficult to read, not organized for easy reference.

Economic Freedom, by Charles E. Noyes. New York: Harper & Brothers, 1943.

The case for social planning, by a moderate advocate who believes that war controls can be used to produce plenty. Decentralization and consent by the people are important to the slow steady growth of democratic planning. Not too difficult. An appraisal of pros and cons.

The Engineers and the Price System, by Thorstein Veblen. New York: The Viking Press, 1933.

A famous advocate of planning wrote a generation ago of the necessity of engineers taking over our economic system in the interests of scientific efficiency and full production. Veblen is sometimes regarded as the writer from whom much contemporary thought on social-economic planning stems. The least difficult of Veblen's books to read.

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It Is Later Than You Think, by Max Lerner. New York: The Viking Press, 1938.

An analysis of the decline of capitalism and of the various attempts to keep it functioning. Planning, as an alternative, is described. The writer assumes substantial knowledge of economic affairs by the reader.

Chapter 15

WHERE DO WE GO FROM HERE?

IF YOU'RE all through," said Doc politely, "Might an old man cast a few pearls?"

"Ah! Now we get the answer, boys," said Bill. "Here's



the last word, a super-deluxe plan that combines the best features of all our plans!"

"And leaves out all the weaknesses of each program—except mine, naturally, because *it* hasn't any weaknesses," said Steve.

"No," said Doc soberly. "You have me confused with Superman. Of course," he grinned, "I do have my own set of ideas—my neutrality this evening has been

only for the sake of helping out your discussion. But if I described it, it would be just one more program, like each of yours, or maybe the same as one of yours. Even though I—and others like me—have spent more years studying this thing than you've had a chance to, we haven't any right to set down a ready-made program before you and expect you to kowtow to it.

"No," he repeated slowly. "I don't want to add one more set of suggestions. But while you've been arguing, I've sort of sat off to one side taking mental notes about *the way we think* when we develop our ideas on what we call 'economics.' If you'd care to listen. . . ."

"Shoot, Doc," they said.

"Well, first of all, did it occur to you that a lot of the time when we think we're being very scientific about economics, we're really borrowing ideas from other fields?"

"I don't get it," said Pete.

"Put it this way," Doc answered. "We talk about an 'economic machine.' But it's really not a separate thing. What we have is an *economic machine serving people*. And—to go one step further—it's a machine that is largely *made up of people*. So when we talk economics we naturally talk about people and about human values."

"I get it now," said Pete.

"We want different economic policies because we have different ideas about what makes people tick. I believe that human beings are selfish animals. So I think any economic system that depends on their being *unselfish* is just a pocketful of dreams."

"Good example," Doc nodded. "You've kept arguing that the profit motive is the only thing that will generate enough steam in people to make them work. If you're right, then it follows that we ought to stick to policies that utilize that kind of driving power."

"But Tom thinks people aren't instinctively selfish or acquisitive—if you'll let me use a college-bred word. He



ECONOMICS AND PSYCHOLOGY

thinks we only *learn* to be selfish and acquisitive because we grow up in that kind of environment—that we could just as well learn to get an equal drive in working cooperatively for the common good. If Tom is right, why then a lot of ideas that are often dismissed as ‘utopian’ might turn out to be perfectly practical.”

“I follow you that far,” said Steve. “You’re saying that, back of our economic theories, each of us has a theory about human nature. I guess I’ve been somewhere between Pete and Tom on that.

“But what bothers me is, how do we find out who’s right and who’s wrong? I suppose you’ll tell us to take a course in psychology.”

“Might help, at that,” Doc grunted. “Modern psychology is digging out some pretty fundamental stuff about us humans. But if I were you, I shouldn’t neglect reading biographies and good novels and plays for what they reveal about men and women. I’d look at some of the recent studies universities and business firms have been making to find out what makes people work best.

“Above all, I’d get acquainted with how people behave in different cultures before I made too many flip generalizations about all men being ‘instinctively’ like Attila the Hun, on the one hand, or the gentle, high-minded St. Francis on the other. Do you know, for instance, that on one South Sea island men do women’s work while the women do what Americans would call the men’s jobs? There are some cultures where it’s good form to be fierce, others where it’s praiseworthy to be mild. There are some where the parents beat the children, and some where the youngsters bully the parents.

"The answers aren't all in yet, by a long way. But if you study many kinds of people, you're likely to come up with a conviction that many of the things we often think of as inborn characteristics are just the result of growing up in a certain kind of civilization."

"Ideas about psychology aren't the only ones, though, that get mixed into economics," Doc went on. "There's the whole matter of philosophy."



ECONOMICS AND PHILOSOPHY

"Whoa, now!" Pete protested. "Me, I'm just a farm boy from Missouri. . . ."

"You ought to be able to hold your horses, then," said Doc, serenely restoking his pipe. "I haven't any patience with the popular notion that philosophy is just a big-word game for a few high-domed philosophers. Everybody has a philosophy—whether he knows it or not."

"I guess I'm one of those who don't know it," said Bill.

"Look," said Doc. "A man's philosophy is simply his set of values—what he thinks most important in life. Each of you boys has been talking from a philosophy all through this discussion. In other words each of you has a few 'values' you prize most highly. When Pete talked, for instance, he stressed *freedom*, which meant to him doing as a person pleases, as far as that is possible. But when Steve talked he played up *security* as a matter of surpassing importance. Naturally, then, Pete is going to oppose controls of the economy, while Steve will be willing to accept some controls if he thinks they'll safeguard security."

"You can put that in another way: Some people rank highest freedom of opportunity—the chance for the able man to

get ahead; others emphasize protection to assure every decent person a reasonable share of this world's goods, even if he isn't particularly long on ability. Some people judge an economic system by how many automobiles and refrigerators and radios it gets into the people's hands; other people say material things—'gadgets,' they'd call them—aren't that important to happiness.

"Anyway, you see, you can't set up a formula to make our economic system work perfectly unless you've made up your mind *what an economy is for*, what you want it to achieve. That's why I say that a lot of talk that sounds like economics really has its roots in philosophy."

"I see that now." Steve was thoughtful. "But how do we find out what philosophy we ought to back?"

"Don't let anybody dictate your philosophy to you," Doc advised. "Philosophy isn't a set of facts, like two plus two equals four. It's a system of beliefs. Consequently nobody can set himself up as a final authority. You have to think it through for yourself. But you can get some guides. Your religion may well play a large part in your philosophy; certainly a believer in the brotherhood of man shouldn't fall for any Nazi-type idea that some master group or race was put here to live off the sweat and blood of the rest of the people.

"And any American's philosophy must be built squarely on the foundations of democracy. Democracy isn't just a form of government—it's a philosophy of life. Gentlemen, we're wearing these uniforms to fight for democracy. Doesn't it look as if we ought to take time out to see what it's all about, and pattern our actions accordingly?"

They nodded their agreement.

There was a pause, as things added up in everyone's mind. Then Pete cleared his throat and said reflectively, "I suppose that when you come right down to it this country owes its



ECONOMICS AND THE INTERPRETATION OF HISTORY

greatness to what you call the 'values' that our pioneer parents believed in. They had sense enough to see that the only thing men need is freedom to go ahead on their own steam. So they kept the controls off—and, boys, under that system we went places! Now if we'd just have enough of their good horse sense to *keep* the controls off. . . ."

"Aw, you can't say that!" Tom protested. "That's only half the story. This country got ahead in the nineteenth century because. . . ."

"Gentlemen," Doc broke in. "This is my inning, remember? But you've illustrated another point for me. I've said a great deal of so-called economic discussion is really psychology or philosophy. Now you've just proved that some of it is also a matter of our views on history.

"We all know that America has built up the richest economy the world has ever seen. It's just common sense to try to figure out how she did it and not throw overboard the very things that have made her great. We've all read some history and heard a lot more. So each of us decides, maybe unconsciously, 'There's the thing that turned the trick'—and then we want to hang onto that thing.

"If the history you've learned persuades you that it's no accident that capitalism and freedom and invention came on the world scene together, you'll hesitate to tinker with business. You may draw the conclusion that planning will take

us backward along the road to serfdom. But if the history you've learned persuades you that the common man has had to battle steadily an upper class bent on exploiting the labor of the common man, in all probability you'll favor legislation governing the owners of industry and protecting the ordinary Joe. Maybe as you read of the conflict between Hamilton and Jefferson back when America was young, you admired the ideas of one or the other—that would influence your thinking today. Maybe you admired Napoleon more than Lincoln or vice versa. You're interpreting history whenever you use a sentence which begins like this, 'This country owes its greatness to. . . .'

"Certainly nothing wrong with that, is there?" Steve asked.

"No, it's something we have to do," said Doc. "But let's be sure we know what we're talking about."

"And how do we do that?"

"Study history," said Doc briefly. They all chuckled.

"But while you're reading your history and studying government in your future college," went on Doc, "don't forget that historians are human beings, too. The history of this war would be written differently by a believer in the common man than by a supporter of the Nazi master-race theory. Historians make judgments and have theories. Watch for them in their writing. Better learn to distinguish between fact and the historian's judgment before you make up your mind whether the fact is worth three cheers or not."



**ECONOMICS AND OUR
PERSONAL BACKGROUND**

"There's still another thing that colors our ideas, Doc," said Tom. "Maybe it's more important than all of these intellectual convictions about what is of most

Where Do We Go from Here?

worth or whether people behave like the apes. And that's the background out of which we come. It makes plenty of difference in our point of view whether we're born in a slum or in a comfortable suburb, whether we have father's business to carry on or just our hands as our working capital."

Doc said, "Right! Let's apply that background idea to ourselves. You start, Tom."

"Church mice were prosperous compared to us," said Tom. "Detroit, near the waterfront. My father was a longshoreman. Caught pneumonia on the job—I left high school, went into a defense plant, then Uncle Sam whistled. That's where I got my ideas and I'll be surprised if they don't stick."

"I guess they're different from farm ideas," said Pete. "I was born and raised on a Missouri farm and that's what I'm going back to. The farm's one place left in America where a man can be free. So you can see I don't have any vested interest in defending business in America, but I do have an interest in keeping freedom."

"Guess you'd say my ideas stay close to my background," said Bill. "My family runs a little grocery store in Seattle and we've felt the squeeze of monopoly. Confidentially, brethren, we don't like it."

"Guess I'm one of the exceptions to prove Tom's rule," said Steve. "I'm out of a skilled worker background—father an electrician foreman in New York. As far as I can see, I picked up most of my ideas from books. Maybe teaching school, though, helped persuade me that you didn't have to look like a ward heeler to work for the government."

"I follow Tom's rule in part but not as a whole," said Mac. "My father's an executive for an insurance company. He's not Mr. Big, but he counts, too. But do I disagree with his

ideas! He's off to the right of Pete, and you know where I stand on business's responsibilities for service and full employment."

"So you see I'm not so wrong," said Tom. "Background determines ideas. Incidentally, one reason why we'll move to government planning is that there are more 'have-nots' like me in this country than 'haves' like Mac."

"But maybe the 'haves' will make an America in which there'll be no need to talk about 'have-nots,' there will be so few," said Mac.

Doc said, "I'll readily admit the influence of background. But I wouldn't say, Tom, background determines ideas, as you do. I'd rather say that it *colors* ideas. Because we know of too many cases in which men's ideas have not been determined by their background. Take Jefferson, from an aristocratic background, who wrote the revolutionary Declaration of Independence. Take Hamilton, on the other hand: he didn't know who his parents were, yet he mistrusted the common man and wanted a king for the new America. Take the Austrian paperhanger, the most ordinary of men, who developed the idea of a master race which looked exactly the way he *didn't* look.

"Yet background does ordinarily color ideas. If we'll recognize that, we may be more tolerant of the other fellow. We may be less likely to call him a liar or a fool if he can't see things our way. After all, he has come to his ideas through his background and his convictions: each of us is limited by what we've done and what we know."

"But you wouldn't go on from that point to conclude that it doesn't matter what ideas a person holds about economic organization, would you, Doc?"

"Yes, Doc, that's a question I'd like to get at, too—if you're through analyzing the adulterants we ordinary



HOW ABOUT COMPROMISE ?

Joes drag in when we think we're examining Simon-pure economics. I'll bet I've sat through a hundred of these bull sessions about jobs and stuff, and if we don't finish in a knock-down and drag-out fight, we wind up with our arms around each other, everybody telling everybody else he's a swell guy even if he is dumb. Seems sort of futile—like fighting to capture a hill, getting a bunch of men killed in the process, and then giving it back to the enemy and saying it doesn't matter anyway."

"At the same time, though," Steve broke in, "if you get all-out hostile to each other, you can't work together on *any* constructive plan. Seems as though there has to be some compromising done."

"You've dug up a real problem, there," said Doc. "Let's answer the first question first: Certainly we won't say it doesn't matter what a man thinks. It matters tremendously. If one idea gets in the saddle, it may take us down the road to depressions or semislavery. Another one may carry us toward a land of peace and plenty. If anybody tells you ideas don't matter much in this practical world, just ask him, 'How about the wrong ideas the Nazis started with?'"

"So if I know what I think is right, I'd better stand up and fight for it. That it, Doc?"

"That's it. *But*," Doc weighed his words carefully, "you've got to be a realist and you've got to understand how a democracy works."

"What do you mean about being a realist?"

"Well, in the first place—and maybe we should have said

this earlier—you realize, don't you, that our country never has had an economic system exactly like the one any of you described. We talked about the system Pete likes as the 'traditional' system, and roughly speaking that's true enough. But our economy was never that simple. It's an awfully big, complex thing, which evolved slowly, out of the experience of the people. They worked out each problem the best they could, as it came along. They felt differently about things at one time—say, during a depression—than they did at another time, so they never took all one system or all another.

"In the second place, you'd better realize that that's the way it's going to be in the future. This country isn't going to label your five systems *A, B, C, D, and E*, and vote on which one to have from now on. You don't 'install' a social and economic system. *It grows*. This big democracy of ours will go right on dealing with each pressing problem as it comes up, the best way it knows how. That means there will be contradictions in our system: sometimes we'll take actions that sound as if they came right out of the socialists' books, and sometimes we'll seem to back free capitalistic enterprise wholeheartedly.

"But at the same time there will be fairly steady long-term trends—such as, for instance, toward greater government control of business, or toward less control. We'll have those big trends because the majority of the people accept or reject a few basic ideas."

"That makes those few basic ideas pretty important," said Mac.

"And worth fighting for," said Tom.

"Ouch!" said Pete. "There's that word fighting again! 'Man the barricades!' I thought when I got this uniform off, I could settle down to enjoy my old age."

Where Do We Go from Here?

"Sorry!" said Tom. "But after all, if basic principles make all the difference and we disagree on those principles what are we going to do?"

"I'd still not be discouraged," said Doc, "providing we stay agreed on the importance of democratic ideas. If we're all honestly trying to live a democratic way of life, I'll take a chance on our minor disagreements.

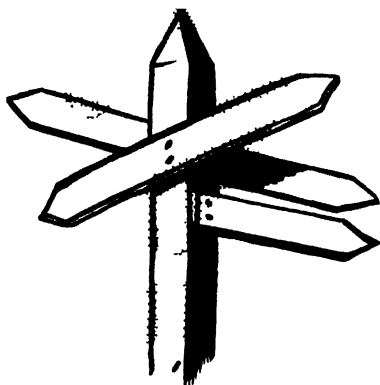
"I'd say we've got one fundamental choice to make: whether to follow slavishly some authority that 'can't be wrong,' or to follow the democratic way and think for ourselves. I'm pretty confident about the way you all will make that choice.

"Then we've got to follow up on the job of finding out exactly what the democratic way of life means to each of us. That's where you meet and work out the meaning of expressions like the worth of the individual, and the common welfare, and freedom, and security, and working together for common concerns, and using the method of intelligence. You'll find help in a piece of writing by Thomas Jefferson called "The Declaration of Independence," in the "Preamble to the Constitution," and in the statements of democratic men of all time. If the statesmen still sound too much like your unintelligible philosophers, try the writers—the old-timers like Walt Whitman, the modern like Stephen Vincent Benét. I notice that recently the Department of Justice published a sort of definition of democracy—*This Democracy of Ours*—written simply, for the use of aliens preparing for citizenship. No, I'm not neutral; I'm for defining and applying your democratic values. Every time a situation comes up in which you're confronted with a matter of right and wrong, take your basic principles and apply them.

"In doing all this, remember you have three obligations:

(1) Go after the truth and face it, even if it kicks the teeth out of some of your old notions. (2) Think of the welfare of *all* the people, not just your own. (3) Think of the long-term effect of any action, not just of its immediate expediency.”

“And then,” said Steve, “I suspect, Doc, you’re about to lead up to that old saw on reserving judgment on all this. ‘There’s yet a lot to be learned, young folks.’”



“I know it sounds trite,” said Doc. “But you’ll have to do it. After all, the things we’ve been talking about have been the great persisting problems of mankind down through the ages: how to produce an abundance, and how to get it in the hands of the men and women and kids who need it. A young man can do with a certain humility when he tackles problems like that after a lot of good, intelligent men have tussled with them.

“But don’t let that keep you from doing something. People have to make decisions—their best guesses—even if they’re

not absolutely sure of the result. Study the approaches we've talked about and new ones that may emerge. Compare them. Pick what you think is best, but keep a weather eye out for good features of other approaches that you can incorporate into your own. When you feel that you've done an honest, competent job of that, by all means get busy.

"No, I haven't any master plan of my own. These are the roads as we now see them. They may change as time goes on. One may blend with another, and other possibilities may emerge. That is as it should be. Think hard, my friends, as you encourage one or another direction. It's my life as well as yours that you're talking about."

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